

# Missing Federal Aid Payments

In a possibly unprecedented case, Argosy University fails to distribute millions in federal aid to students as its campuses are on the brink of closing.

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Argosy University has failed to distribute nearly \$16.3 million in federal aid to thousands of its students.

And chances are the students won't get the money, according to financial aid and education experts.

The unusual problem escalated last week, when the U.S. Department of Education suspended Argosy (<https://www.insidehighered.com/news/2019/02/28/education-department-boots-argosy-campuses-federal-student-aid-program>) and some Art Institutes campuses, which are owned by the nonprofit Dream Center Education Holdings, from receiving federal aid. The department also denied Argosy's request to change its tax status to nonprofit.

"I am a third-year law student and should be worrying about studying for the California bar exam instead of worrying about financial woes like this," Demis Camacho, a student attending Western State College of Law at Argosy University, said in an email to *Inside Higher Ed*. "Students are growing more worried as another day passes without financial aid."

Camacho, like many of his peers, relies on financial aid stipends or refunds to help pay for his rent, food, transportation to class and other basic needs.

"The frustration with students keeps growing each day," Camacho said. "More and more students are skipping class, and being on campus is a constant reminder of this difficult situation because all people talk about is what is going on. I do not think there is a single student that can fully concentrate on their studies – even more, the bar."

He said students also are largely in the dark about what to do if the law school closes midsemester and before the California bar exam in July.

In the [letter](https://studentaid.ed.gov/sa/sites/default/files/argosy-cio-denial-redacted.pdf) (<https://studentaid.ed.gov/sa/sites/default/files/argosy-cio-denial-redacted.pdf>) explaining why it was cutting off federal funds to Dream Center, the Education Department said Argosy has failed to meet its financial responsibility to students.

“Not only did Argosy fail to pay credit balances prior to submitting its request for payment from the department, even after Argosy received the funds, it still failed to pay those credit balances,” the department said.

Dream Center filed for a court-appointed (<https://www.insidehighered.com/news/2019/01/21/nonprofit-dream-center-institutions-placed-receivership>) receiver in January, because the missionary organization was facing insolvency and wanted to sell its campuses to keep them open.

Argosy received nearly \$13 million from the department in federal financial aid between January and Feb. 5. Instead of ensuring credit balances were paid to students, the institution paid nearly \$4.3 million to its staff and about \$2.2 million to vendors and used roughly \$1.8 million for payroll expenses. Another \$3.8 million was maintained in the receivership account.

“Significant funds were released by the department since mid-January, including after the receiver was appointed,” the Education Department said.

The nonprofit purchased (<https://www.insidehighered.com/news/2017/03/06/large-profit-chain-edmc-be-bought-dream-center-missionary-group>) Argosy, Art Institutes and South University campuses from the for-profit Education Management Corporation in 2017 amid criticism about a lack of transparency and concerns over whether Dream Center could successfully operate the campuses. However, the department held off on officially approving the transaction.

The receivership status triggered the department to place cash management sanctions on Argosy, especially after it received numerous complaints that the institution had failed to pay students and parents their federal aid refunds. The sanctions, known as heightened cash monitoring, which are designed to protect federal funds and students, required Dream Center and the receiver to disburse aid to Argosy students before seeking reimbursement from the department.

“We are disappointed at the decision by the Department of Education to deny Argosy University’s request for change of ownership,” Mark Dottore, the receiver, said in a written statement. “We are working to determine the best path forward at this time.”

Dream Center has until March 11 to present new evidence to dispute the department’s findings.

## **Missing Money**

Financial aid experts said while the department’s moves with Argosy are reminiscent of Corinthian Colleges' collapse (<https://www.insidehighered.com/news/2015/04/27/corinthian-ends-operations-remaining-campuses-affecting-16000-students>) in 2015, denying students’ their financial aid refunds is unique.

"This is a very unusual situation," said Justin Draeger, president and chief executive officer of the National Association of Student Financial Aid Administrators. "I've never seen this sort of thing where funds are moving around in a school with no explanation of where they are, and they haven't been accounted for correctly."

Also unusual are the department's actions in its attempt to prevent Argosy from shutting down the way Corinthian did.

"A lot of things here just don't make sense," said Mark Kantrowitz, an expert on student aid. "The U.S. Department of Education should really know if an institution is financially viable and what kind of pressure can be put on an institution before it shuts down."

The department released "significant funds" to Argosy even after it entered receivership, according to the letter. But the decision to pull Argosy's access to federal student aid is often a "death knell" for colleges, he said.

"I would've thought the department learned its lesson after Corinthian that before you put an institution on heightened cash monitoring, you do some analysis of the institution's cash flow so you understand what the consequences are," Kantrowitz said.

Kantrowitz and Beth Stein, vice president of the Institute for College Access and Success, said it also is odd that the department never required a letter of credit from Argosy. That action is designed to protect students and taxpayers and is used as collateral if a company or college does not pay the department back.

"It's unlikely the students will ever see the money," Stein said. "Could the department make students whole? Yes. Will they? Well, that is a different question."

Since the department never formally approved of Dream Center's acquisition of the campuses from EDMC, there is a legitimate question about whether students enrolled since Dream Center took over the campuses in 2017 should be entitled to closed-school discharges, she said. The discharges would ensure Argosy students aren't left on the hook for federal loans.

If students transfer to other institutions, they won't be eligible for a closed-school loan discharge. But Stein said it may be difficult to find colleges that will accept Argosy's credits.

"Students have a long road ahead of them, and it's disappointing to us that there has been so little outreach from the department," Stein said.

Some students, who are desperate to learn more about what happened to their aid payments, have reached out to Dottore and his team. But they have been frustrated by a lack of answers.

"So there is no money to pay us? How are we expected to pay our bills?" Lee Moore, an Argosy student, said in an email to a Dottore Companies representative. "It's unfortunate how the true victims get lost and trampled on in the crossfire of the blame game."

## Unsure Fate for Other Dream Center Campuses

It's not clear what effect cutting off Argosy from federal aid will have on other Dream Center campuses.

The department's decision only affects Argosy, Western State, the Art Institute of California in Hollywood and the Art Institute of California in San Diego.

Some Art Institute campuses were acquired

(<https://www.insidehighered.com/news/2019/01/24/private-investment-firm-behind-acquisition-art-institutes-and-south-university>), in January by Education Principle Foundation, which until Dec. 31 was known as the Colbeck Foundation. The foundation is owned by Colbeck Capital Management, a private investment firm. The organization now controls Art Institutes in Atlanta; Austin, Tex.; Dallas; Houston; Miami; San Antonio; Tampa, Fla.; and Virginia Beach. It also acquired South campuses in Alabama, Georgia, Florida, South Carolina, Texas and Virginia. However, accreditors and the department will have to approve the deal. And it's unclear if the situation with Argosy's ownership will affect the outcome, although the department has shown support for the move, according to court documents.

Education Principle Foundation did not buy the Art Institutes of Seattle, Las Vegas and Pittsburgh. So those campuses were not affected by the department's decision to cut off federal aid to Argosy. The Pittsburgh location is scheduled to close March 31. The Las Vegas campus also was scheduled to close at the end of the month but is remaining open, according to a February letter

(<https://mailchi.mp/593f913e0fd1/an-important-message-about-the-art-institute-of-las-vegas?e=734c5bfd68>), Roger Hosn, the campus president, sent students.

As for the Seattle campus, the Washington Student Achievement Council, which oversees colleges and universities in the state, emailed students Tuesday (<https://www.wsac.wa.gov/ai-seattle>) that the institution was at risk of imminent closure. Emily Pesky, a

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## Institutions Losing Aid Eligibility

- Argosy University, Phoenix
- Argosy University, Phoenix ATS Chandler
- Argosy University, San Francisco Bay Area
- Western State University College of Law at Argosy University
- Art Institute of California, Hollywood
- Art Institute of California, San Diego
- Argosy University campuses in Arlington, Va.; Atlanta; Chicago; Clay National Guard Center in Marietta, Ga.; Dallas; Draper, Utah; Eagan, Minn.; Hilo, Honolulu and Wailuku, Hawaii; Los Angeles and Orange, Calif.; Seattle; Tampa, Fla.; and Utah National Guard Base.

## Campuses That Remain Eligible

- Art Institute of Seattle

spokeswoman for the council, said it received notice from the Education Department that Dottore told the feds that the Seattle campus had limited funds and would not be able to meet its financial obligations for the rest of the term. The Seattle campus enrolls about 650 students.

### **Lawsuit to Recoup Funds**

Dottore asked a federal court last month to force Studio Enterprise Manager, a for-profit education management services company, to return about \$6 million Dream Center paid the company to provide nonacademic services, such as enrollment management and marketing, to the eight Art Institutes and South University campuses.

Dottore, in a Feb. 7 letter to the department, said the “dire cash situation” is due to a series of agreements made in January. Studio Enterprise Manager is an affiliate of Colbeck Capital Management.

Studio disputes that assessment. The company said in court filings that the receivership has hurt the campuses.

Despite what happens in court, financial aid experts said students ultimately will lose out as the former EDMC campuses try to remain afloat.

A regional accreditor is warning students that the only options for the Art Institute of Seattle are closure or finding a new buyer. Camacho, the Western State law student, said students have heard the same thing at his California institution.

“Not only do students not have their refunds, so they’re going to struggle to figure out how to make rent ... if they want to continue their education, they’re probably starting from zero,” Kantrowitz said. “Their aspirations, their dreams, are derailed. They’ll apply for a closed-school discharge and their loans will be gotten rid of, but it isn’t instantaneous.”

Camacho said he and his classmates want to petition the State Bar of California to allow them to sit for the exam even if they don’t receive their degrees. Another option is to transfer to a different law school and risk losing the credits they have earned from Argosy.

“If the school does not close midsemester and we still do not receive our financial aid, we are either going to borrow money to be able to complete our studies and pay the bar fees or take a leave of absence,” he said.

- Art Institute of Las Vegas
- Art Institute of Pittsburgh

### **Campuses Acquired by Education Principle Foundation**

- South University campuses in Alabama, Georgia, Florida, South Carolina, Texas and Virginia
- Art Institutes campuses in Atlanta; Austin, Tex.; Dallas; Houston; Miami; San Antonio; Tampa, Fla.; Virginia Beach, Va.

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