

***Alliance For Economic Stability, Inc.***  
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New York, New York 10017

May 17 2010

The Honorable Arne Duncan  
Secretary  
U.S. Department of Education  
LBJ Education Building  
400 Maryland Avenue, SW  
Room # 7W311  
Washington, DC 20202

Dear Secretary Duncan:

The Alliance for Economic Stability (“AES”) has previously written letters to the Department of Education (“DOE”) advocating changes to the oversight of for-profit companies operating online universities (“For-Profits”), in the interest of preventing waste of tax-payer funds. We believe that a judicious use of tax-payer funds is in the best interest of the American people and the American economy overall.

Our attention has focused on Bridgepoint Education, Inc., operator of Ashford University, as this institution presents a particularly egregious example of the For-Profits making questionable use of tax-payer funds.

Further to our former comments on Bridgepoint, we believe that the DOE should thoroughly investigate Bridgepoint’s potential violations of DOE regulations surrounding Bridgepoint’s use of quotas for its salespeople, or “enrollment advisors.” Such quotas are a direct violation of federal regulation, which provides that compensation should not be “based solely on the number of students recruited, admitted, enrolled, or awarded financial aid.”<sup>1</sup> This is a violation even within the lenient “safe-harbor” of allowing regulated institutions to alter fixed salaries of salespeople up to two times per year without a salary increase being considered incentive compensation per se.

A television program recently aired by PBS in the Frontline series, titled “College Inc.,” featured a former Bridgepoint sales employee, who stated that Bridgepoint used and enforced a quota system, requiring salespeople to enroll a specific number of students per month or face termination of their employment. Another former Bridgepoint recruiter wrote an email describing Bridgepoint’s quota system, which email was shown and discussed in a public DOE hearing.

Advisors to the AES have also spoken with former Bridgepoint employees who have stated that the company uses a quota system. A quota system for enrollment of students necessarily implies that a salesperson’s compensation is based solely on the number of students recruited. If an employee does not meet the quota, his or her salary will be reduced, or his or her employment will be terminated. If an employee exceeds the quota, his or her salary will increase.

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<sup>1</sup> 34 C.F.R. § 668.14(b)(22)(ii)(A)

Even without such personal testimony, one can determine that Bridgepoint shows a remarkably consistent number of students enrolled per month per salesperson. The attached Table 1, based upon data in Bridgepoint's public financial statements, shows that over a span of years the number of students enrolled by Bridgepoint per salesperson employed has been exactly consistent, both during the period covered by the audit of Bridgepoint by the DOE's Office of Inspector General ("OIG") and the time since that period. This consistency is irregular given Bridgepoint's exponential growth in student enrollments and reinforces the idea that Bridgepoint is using a quota system.

Bridgepoint's most recent annual report discloses that the company had 1,175 enrollment advisors as of December 31, 2009. The report also discloses that Bridgepoint employs financial service advisors and academic advisors who work in conjunction with the enrollment advisors in the sales process. With this division of duties, the sole function of enrollment advisors is to make sales calls – not to consult on financial or academic issues. By necessity, Bridgepoint must make decisions on terminations and salary changes for enrollment advisors strictly on the basis of the number of students enrolled, again showing that a quota system must be used, which system violates federal regulation.

There is a distinct line of investigation that the DOE may follow to determine the extent of Bridgepoint's use of a quota system as a sole basis for compensation. Bridgepoint records will show the date a new enrollment advisor begins work and the date of his or her first salary increase or termination. Those who are terminated first face a series of escalating warnings, some of which are written, from the company. Those who face warnings for not meeting the quota will be assigned "leads" with less likelihood of enrollment. That is, those who are not meeting the quota will be assigned older leads that have already been worked by other, more senior employees, and closing a sale on these older leads will count towards the quota of the employee who initiated the lead. The foregoing is based upon information provided by former Bridgepoint employees to an AES advisor.

Mr. Howard Sorenson of the OIG spoke with an advisor to the AES and kindly explained his views on the OIG's authority in its current audit of Bridgepoint. He conveyed that the OIG's statutory authority and statutorily-mandated processes for audits have limitations on the extent of the audit, the severity of sanctions or remedial actions, and the type of conduct that the OIG could find to be in violation of relevant regulation. Mr. Sorenson also confirmed that Bridgepoint is only subject to an OIG audit review, and is not the subject of a formal OIG investigation or referral to the U.S. Department of Justice.

We, of course, respect Mr. Sorenson's views and the OIG's expertise on its own statutory authority. However, we believe the information presented here sufficiently shows that Bridgepoint's records and conduct can be investigated in a manner that will show evidence of violation of federal regulation. Specifically, we believe that sufficient evidence of a quota system that violates federal regulation exists in Bridgepoint records and can be discovered by the DOE.

We respectfully offer that the OIG may not be accustomed to conducting an investigation of the type we see as necessary to uncover Bridgepoint's violation or to imposing sanctions that would remediate waste of tax-payer funds. We have not found record of any sanction significantly impacting the operations of a For-Profit in an exhaustive review of public OIG and Department of Justice records. The only substantial sanction of a For-Profit we found arose from the OIG's past audit of Apollo Group, Inc. and resulted in a sanction which had minimal impact on Apollo's

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subsequent growth and which was dwarfed by Apollo Group's settlement of a *qui tam* lawsuit brought on behalf of the government.

Nonetheless, we think the OIG and the DOE have the statutory authority to investigate these violations, should do so, and should impose appropriate sanctions. We think that in order to remediate violations and assure a judicious use of tax-payer funds, an appropriate sanction would be more severe than the past sanctions arising from OIG audits of For-Profits.

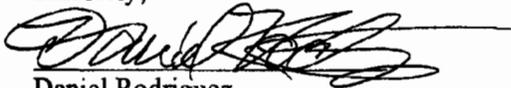
The DOE's most recent data on official cohort default rates show that For-Profits collectively have a cohort default rate that is more than double the average of public and private non-profit institutions. Bridgepoint derived approximately 85% of its total revenue, or approximately \$386 million, in 2009 alone from tax-payer funds administered via Title IV. Bridgepoint will collect at least \$600 million in revenue this year, going by the rate of its most recent quarter. Clearly, addressing potential waste of tax-payer funds at Bridgepoint is an important and urgent matter.

The For-Profits' are only able to maintain extraordinarily high profit margins through government funding and through a misrepresentation of the quality of the education based strictly on accreditation. This misrepresentation is used in marketing to individuals who may be especially susceptible to boiler room sales tactics. This system aligns economic incentives against providing a quality education. DOE sanctions which are not severe enough to be economically meaningful provide further incentive for For-Profits to violate federal regulation.

DOE action to address Bridgepoint's incentive compensation scheme, which violates already lenient federal regulation, will allow for a less victimization-prone enrollment process, will mitigate perverse economic incentives against quality education, and will safeguard against waste of tax-payer funds.

If we can provide any information to assist the DOE in this endeavor, we are happy to do so.

Sincerely,



Daniel Rodriguez  
Director

cc: Robert Shireman, Deputy Undersecretary  
Office of the Undersecretary

Kathleen S. Tighe, Inspector General  
Office of Inspector General

William Taggart, Chief Operating Officer  
Federal Student Aid

For additional recipients see Distribution List

Enclosure

**Bridgepoint Education, Inc. (BPI)****Table 1**

Analysis of Sales per Enrollment Advisor and Hours of Work per Sale

	<u>Post-Audit Period</u> <u>7/1/09 - 3/31/10</u>	<u>During Audit Period</u> <u>1/1/08 - 6/30/09</u>
Number of Sales (New Students) <sup>1</sup>	54,400	68,000
Average No. of Enrollment Advisors (EA) <sup>2</sup>	1,179	735
Total EA Hours Worked in Period <sup>3</sup>	1,839,240	2,293,200
EA Hours of Work per Sale	34	34
Sales per EA during Period	46	93
Sales per EA per Month	5	5

1: Disclosed in Bridgepoint's quarterly earnings releases.

2: Number based upon weighted average calculation using Bridgepoint's disclosures of the number of enrollment advisors employed at year-end for 2009, 2008, 2007.

3: Calculation based upon 40 hours per week multiplied by the number of weeks in the period, multiplied by the average number of enrollment advisors.