

## ZENITH EDUCATION GROUP

### Independent Compliance Monitor Reports Executive Summary, Summary of Findings through July 31, 2015 and Methodology and Scope of Review October 14, 2015

#### **EXECUTIVE SUMMARY**

In connection with its acquisition and operation of various Everest and Wyotech campuses and on-line programs, Zenith Education Group (“ZEG” or “Zenith”) voluntarily agreed with the U.S. Department of Education (“Department”) to adhere to certain “Conduct Provisions” set forth in the Term Sheet and attachments thereto, including the engagement of an independent monitor (“Monitor”) acceptable to the Department. Hogan Marren Babbo & Rose, Ltd. was engaged in February 2015 to serve as the Monitor for Zenith. Zenith and the Department agreed that the Monitor would independently review and assess whether Zenith is complying with the terms of the Conduct Provisions. The Monitor’s Reports are designed to set forth the Monitor’s review and assessment of Zenith’s compliance with the Conduct Provisions under terms agreed by the Department and Zenith. They do not purport to be a comprehensive review of all Zenith activities and functions. The Monitor Reports include the Monitor’s findings with respect to whether Zenith is complying with the Conduct Provisions and a description of any actions taken by Zenith in response to those findings. The areas to be reviewed by the Monitor are the following:

1. Marketing Materials Review
2. Review of Admissions and Recruiting
3. Oversight of Required Disclosures
4. Review of Implementation of Student Choice Initiative
5. Review of the Zenith Tuition Reduction Program and Zenith Grant Program
6. Review of the Zenith Graduation Scholarship Program

The Monitor Reports are divided according to the foregoing sections, with preliminary and updated findings on a monthly basis as the Monitor progresses in its review. In the specific areas as identified herein, the Monitor has engaged the independent research organization, NORC at the University of Chicago (“NORC”), to provide statistical analysis and sampling recommendations.

#### **SUMMARY OF FINDINGS THROUGH JULY 31, 2015**

1. Review of Marketing Materials

To date, the Monitor has reviewed a portion of the Marketing Materials, including admissions materials, training materials, enrollment materials, print media, and materials regarding the use of lead generators, and has found no material compliance issues.

Review of marketing materials is an ongoing process and is expected to be completed by the Monitor's November Report.

## 2. Review of Admissions and Recruiting Materials

The Monitor has reviewed materials related to Admissions and Recruiting, including review of training materials, and has found no material compliance issues.

The Monitor has reviewed the Zenith Enrollment Agreements for compliance with the Conduct Provisions governing cancellation period, accreditation status disclosure and dispute resolution. For Zenith schools where changes to the Enrollment Agreements must be approved by state agencies, the Enrollment Agreements were reviewed in draft form. The June 30 Monitor report indicates which Enrollment Agreements have not yet received formal approval from state agencies and, therefore, are not in use. Nevertheless, Zenith has indicated that it will abide by the terms of the conduct provisions regarding cancellation period and dispute resolution for all schools regardless of whether the Enrollment Agreement has received approval from the applicable state agency. The Monitor has concluded that draft and final Enrollment Agreements reviewed contain the required provisions regarding cancellation period, accreditation status, and dispute resolution.

The Monitor has reviewed Admissions Call Recordings as described in the Methodology section below and has found no material compliance issues that indicate a systemic problem in admissions policies or training. However, in each month reviewed, individual calls were identified that contain statements that are inaccurate or that otherwise raise concerns. The Monitor has identified these examples of individual admissions representative statements in the June and July Monitor reports to Zenith as areas to be addressed in training.

## 3. Oversight of Required Disclosures

The Monitor has reviewed Completion Rates and Accreditation Status Disclosures and has found no material compliance issues. Specific errors that were identified regarding Completion Rates were corrected by Zenith.

## 4. Review of Implementation of Student Choice Initiative

The Monitor has reviewed the implantation of the Student Choice Initiative and has found no material compliance issues. The Monitor concluded that Zenith made reasonable best efforts regarding the implementation of the initiative. The Monitor concluded that the materials presented were fair and balanced and the process did not have a systemic or pattern of bias.

## 5. Review of the Zenith Tuition Reduction Program and Zenith Grant Program

The Monitor has reviewed the Zenith Tuition Reduction Program and has confirmed that Zenith implemented a 20% tuition reduction for all students.

The Monitor has reviewed the Zenith Grant Program and has reported the amounts for such grants in the May Monthly Report. Updates on the Zenith Grant Program will be provided on a quarterly basis.

The Monitor has found no indication that Zenith has any institutional loan programs.

#### 6. Review of the Zenith Graduation Scholarship Program

The Monitor has reviewed the Zenith Graduation Scholarship Program and has reported amounts for such programs in the May Monitor Report. Updates on the Zenith Graduation Scholarship Program will be provided on a quarterly basis.

### **METHODOLOGY AND SCOPE OF REVIEW**

#### 1. Marketing Materials

The Monitor's review includes a comprehensive review of all marketing materials currently in use by Zenith. This includes review of material published to students or the general public including websites, catalogs, advertisements (print, web, radio, television) and any complaints from students or former students regarding marketing materials. The review includes the Monitor's assessment of the following:

- whether materials are fair and accurate.
- whether materials are in compliance with Department regulations and applicable state law concerning consumer fraud.
- whether materials provide students with required disclosures in a timely and accurate manner.
- whether websites include disclosures required by Department regulations or required in the Conduct Provisions.

The Monitor's review of all marketing materials is an ongoing process and some aspects of this review have been completed as reflected in the Monitor Reports. Specifically, the Monitor has reviewed certain of ZEG's marketing materials for compliance with Department regulations and requirements, as well as with applicable state law pertaining to post-secondary education institutions. As a first step, the Monitor cataloged all marketing materials provided by ZEG by type, e.g., advertisement, brochure, course catalog, enrollment agreement, admission script, staff training material and website page. The cataloging process also identified the extent to which marketing material was campus specific and/or program specific.

With respect to Department regulations and requirements, marketing materials, except for catalogs and websites pages, were reviewed under a review template designed by the Monitor to determine whether the required federal disclosures, as set forth in 34 CFR Part 668, Subpart D, and the required disclosures regarding Cohort Default Rates, Median Loan Debt, and Names and Credentials of Full and Part-Time Faculty, as set forth in ZEG's agreement with the Department, were included in the marketing material. The Monitor also reviewed the marketing materials, except for catalogs and websites pages, for compliance with the misrepresentation requirements set forth in 34 CFR Part 668, Subpart F or incentive compensation requirements set forth in 34 CFR §668.14(b)(22). With respect to state law, the Monitor also reviewed the marketing materials, except for catalogs and website pages, for consistency with applicable state law pertaining to post-secondary education institutions.

Again, as reflected in the Monitor Reports, some aspects of the review are ongoing. Review of catalogs and website pages will be reviewed by the Monitor for compliance with Department regulations and

requirements, as well as applicable state law pertaining to post-secondary education institutions, is expected to be completed in the October and November Monitor Reports. The determination of the order and priority of categories of review of marketing materials was made based on an assessment by the Monitor of potential for harm to prospective students, a preliminary review of the master versions of web pages and with consideration to levels of additional review by state regulators or accreditors regarding certain materials, such as catalogs, and allocation of resources in the performance of the Monitor's other obligations.

## 2. Admissions and Recruiting Materials

The Monitor's review includes a review of documents related to employees performing admissions and recruitment functions. This includes a review of manuals, presentations, scripts, and other documents used in training and supervising employees responsible for recruiting and admissions; a review of all materials and documents related to the supervision, performance, and compensation of employees responsible for recruiting, enrolling or admitting students; and a review of complaints against Zenith by students and former students regarding admissions and recruitment activities. The Monitor's review includes an assessment of whether materials related to employees are in compliance with state and federal law related to admissions and recruitment, including the prohibition on incentive compensation, and whether materials train employees to provide prospective students all required disclosures in a timely and accurate manner, including disclosures pertaining to cost of attendance, the availability of student aid, and program outcomes such as placement and completion rates.

In addition, the Monitor's review includes a monthly review of telephonic and email communications with students regarding admissions and recruitment based on statistical sampling recommendations provided by NORC. The Monitor worked with NORC to identify statistically valid samples of admissions calls to be reviewed in their entirety by the Monitor. These calls are recorded by Zenith, which has significantly expanded call recording capabilities since the acquisition and operation of Everest and Wyotech.

For sampling purposes, the online program is treated as a single campus, while each ground campus is treated separately. NORC identifies the recommended specific sampling set by designating calls by campus and admissions representative. The sample of call recordings totals 200 calls for Zenith online starting in April 2015 and an additional 200 calls from Zenith and Wyotech ground campuses starting in June 2015. The total number of admissions calls during a given month varies. For instance, in a single month for its online program, Zenith identified 118,000 calls resulting in 540 admissions; and 357,000 calls for ground campuses resulting in approximately 1,300 admissions. The sample was designed by NORC to identify systemic or major issues with the admissions calls with a 5% error rate and a 95% confidence interval for ground campuses and online separately. The sampling schema was not designed to identify errors by individual admissions officers. As this is a continuous process, adjustments are made to the sampling methodology to address issues discovered during the process. For example, the sampling set increased the proportion of inbound calls reviewed because a strictly proportional sample would not sufficiently represent the inbound calls statistically because the number of inbound calls is significantly smaller than outbound calls. As adjusted, inbound calls have an 86% confidence interval for ground campuses to detect errors greater than 5% for call review periods beginning in June 2015. Adjustments were also made to the relative ratio of manually dialed calls versus dialer-dialed calls as it was found that a significant number of manually dialed calls did not contain substantive discussions of admissions.

The sample is not designed to identify all errors or misstatements by Zenith employees. The calls are reviewed by the Monitor at the admissions representative stage. The ratio of calls is based on the number of inbound versus outbound calls, adjusted by NORC to address variations in the number of such calls that relate to the admissions process. Calls are reviewed by the Monitor at the rate of approximately four per hour in order to allow listening to the full call and adequately documenting the review; NORC staff did not participate in any review of recorded calls. A second level review is performed on calls that are flagged for an issue in the Monitor Report to confirm accuracy. The review is to identify the degree to which the admissions counselors are following standard ZEG policy and identify any communications that are misleading to prospective students.

The Monitor's review includes review of existing documents and contracts related to the use of lead generators to include assessment of whether contracts comply with the incentive compensation prohibition.

### 3. Required Disclosures

#### A. Completion Rates

The Monitor's review includes review of documents and materials related to calculation of Completion Rates as required to be posted in July 2015. This includes review of enrollment and completion data for all campuses and programs; review of documents regarding training, supervision and processes for calculation and verification of Completion Rates; and review of Completion Rates set forth in course catalogs and promotional material. The Monitor's review includes assessment of whether Completion Rates are calculated in accordance with the methodology applicable to gainful employment programs as set forth at 34 CFR §668.401 et seq. and verification of a sample of academic records to assess accurate calculation of Completion Rate based on recommendations by NORC.

#### B. Placement Rates

The Monitor's review includes review of documents and other available verification materials related to calculation and verification of Placement Rates. Review of Placement Rates will begin after Zenith has calculated the Placement Rates and submitted documentation to its Accreditors. The scope of the Monitor's responsibilities does not include review Placement Rates calculated by Corinthian before Zenith's acquisition of Everest and Wyotech.

#### C. Accreditation Status

The Monitor's review includes review of enrollment agreements to determine whether the Accreditation Status Disclosure as specified in the Conduct Provisions, as approved by all applicable governmental and educational regulatory authorities, is contained in the enrollment agreements.

#### 4. Student Choice Initiative

The Monitor's review includes a review of materials related to the Student Choice Initiative. This included review of training materials, presentations, scripts, and student acknowledgement and choice forms for online and ground campuses; listening to a sample of live and recorded telephone conversations between students and Zenith employees related to Student Choice; and site visits to a select sample of campuses based on the recommendation of NORC to observe Student Choice meetings or interview students regarding the Student Choice process.

The review included assessment of Zenith's efforts to conduct a meeting between a Zenith representative and every student who had the Student Choice option to discuss their choice; Zenith efforts to obtain a written acknowledgement from each student that such meeting has occurred, applicable options were discussed and that the student understands the options presented; and Zenith's fairness or bias in presentation of Student Choice options.

#### 5. Tuition Reduction Program and Zenith Graduation Scholarship Program

##### A. Tuition Reduction Programs

The Monitor's review includes a comprehensive review of the Tuition Reduction Program. The review includes Zenith's implementation of a 20% tuition reduction for new students at Everest College, Everest Institute, Everest University, and Everest College Phoenix Institutions, and review of Zenith internal quality controls and processes regarding continued compliance with tuition reduction.

##### B. Zenith Graduation Scholarship Program

The Monitor's review include review of training materials, descriptions of programs, applications or other materials regarding the Zenith Graduation Scholarship; review the processes for implementation and reporting of the Graduation Scholarship Program; and review Zenith's internal quality control reporting regarding implementation of the Graduation Scholarship Program.

#### 6. Zenith Grant Program

The Monitor's review includes a review of program documents, training materials and descriptions of grant programs offered by Zenith; and review of Zenith quality control reporting regarding Grants awarded. The review includes a review to determine if there is any indication that Zenith offers an Institutional Loan Program.