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Scrutiny Takes Toll on For-Profit College Company

By TAMAR LEWIN

Stanley H. Kaplan started his tutoring business in the basement of his parents' Brooklyn home in 1938. As standardized tests became a bigger fixture of American education, his company became a national operation, preparing millions of students for the SAT, LSAT, MCATs and other tests.

Kaplan was still a test-prep company when the Washington Post Company bought it in 1984, after Richard D. Simmons, the president, convinced Katharine Graham of its potential for expansion and profits.

Over the last decade, Kaplan has moved aggressively into for-profit higher education, acquiring 75 small colleges and starting the huge online Kaplan University. Now, Kaplan higher education revenues eclipse not only the test-prep operations, but all the rest of the Washington Post Company's operations. And Kaplan's revenue grew 9 percent during the last quarter to $743.3 million — with higher education revenues more than four times greater than those from test-prep — helping its parent company more than triple its profits.

But over the last few months, Kaplan and other for-profit education companies have come under intense scrutiny from Congress, amid growing concerns that the industry leaves too many students mired in debt, and with credentials that provide little help in finding jobs.

Reports of students who leave such schools with heavy debt, only to work in low-paying jobs, have prompted the Department of Education to propose regulations that would cut off federal financing to programs whose graduates have high debt-to-income ratios and low repayment rates.

Though Kaplan is not the largest in the industry, the Post Company chairman, Donald Graham, has emerged as the highest-profile defender of for-profit education.

Together, Kaplan and the Post Company spent $350,000 on lobbying in the third quarter of this year, more than any other higher-education company. And Mr. Graham has gone to Capitol Hill to argue against the regulations in private visits with lawmakers, the first time he has lobbied directly on a federal issue in a dozen years.

His newspaper, too, has editorialized against the regulations. Though it disclosed its conflict of interest, the newspaper said the regulations would limit students' choices. "The aim of the regulations was to punish bad actors, but the effect is to punish institutions that serve poor students," Mr. Graham said in an interview.

He said the regulations' emphasis on debt would make it harder for Kaplan to serve older working students who must take out loans to attend school.

He added that Kaplan could play an important role in meeting President Obama's goal of a better-educated work force. Kaplan Higher Ed, Mr. Graham said, has also broadened the reach of the Post Company — beyond the middle-income students who typically use its test-prep services — to include lower-income students.

"We purchased colleges that served mostly poor students, and we have embraced that role," Mr. Graham said. "For students with risk factors, older working students with children, Kaplan has dramatically better graduation rates than community colleges."

The company has acknowledged, however, that the new rules could hurt Kaplan. According to 2009 data released this summer by the Department of Education, only 28 percent of Kaplan's students were repaying their student loans. That figure is well below the 45 percent threshold that most programs will need to remain fully eligible for the federal aid on which they rely. By comparison, 44 percent of students at the largest for-profit, the University of Phoenix, were repaying their loans.

Kaplan is facing several legal challenges. The Florida attorney general is investigating eight for-profit colleges, including Kaplan, for alleged misrepresentation of financial aid and deceptive practices regarding recruitment, enrollment, accreditation, placement and graduation rates.

Kaplan is also facing several federal whistle-blower lawsuits whose accusations dovetail with the findings of an undercover federal investigation of the for-profit industry this summer, including video of high-pressure recruiting and unrealistic salary promises.

"The claims they make are absurd and simply not reflective of the kind of company that

Kaplan is," said Andrew S. Rosen, Kaplan's chairman. "We're confident that when a court rules, we'll have a clear demonstration that this is not who Kaplan is."

Troubles and Growth

The growth of the for-profit education sector — which offers more flexible schedules and online classes than community colleges, at far higher tuition — has been nothing short of explosive.

The University of Phoenix has more than 450,000 students, for example, and the Education Management Corporation, DeVry, Corinthian Colleges, the Career Education Corporation and Kaplan enroll more than 100,000 each.

All these schools get most of their revenue from federal student aid. Kaplan Higher Education, for example, gets 91.5 percent of its revenue from the federal government, through Pell grants, Stafford loans, military and veterans benefits and other aid.

On average, for-profit colleges spend about 30 percent of their revenue on advertising and marketing.

Lawmakers and Department of Education officials have become increasingly concerned that too much of the $26.5 billion in federal student aid that went to for-profit colleges last year enriched shareholders and company executives, rather than helping students.

Such schools enroll about 11 percent of the nation's college students, and get a quarter of all federal student aid. But their students account for 43 percent of those defaulting on student loans.

These statistics have prompted inquiries about the schools' business practices. This summer, Senator Tom Harkin's committee, in oversight hearings on the industry, watched undercover videos about high-pressure recruiting tactics that Kaplan and others used to sign up students.

Using hidden cameras, investigators from the Government Accountability Office found deception or fraud at 15 for-profit colleges, including two Kaplan campuses.

The undercover videos showed Kaplan recruiters in Florida and California making false or questionable statements to prospective students — suggesting for example, that massage therapists earn $100 an hour, and that student loans need not be paid back.

Mr. Rosen and Mr. Graham quickly issued a statement calling the video scenes "sickening," suspended registration at the two campuses, began retraining employees and started their own "mystery shopper" program to check on employee practices.

"We've done our best in the aftermath of the Senate hearings and the G.A.O. report to make sure that everyone at Kaplan is working for the benefit of the students," Mr. Graham said.

But the bad publicity, and growing scrutiny, have taken their toll. Since its recent high last spring, Washington Post Company stock has dropped by more than a quarter. Other for-profit education companies, including Corinthian Colleges, in which the Post owns an 8 percent stake, fell even further.

Terry Hartle, senior vice president at the American Council on Education, an umbrella organization for all institutions of higher education, said that most people formerly assumed that Kaplan and other leaders in the field were above reproach.

"The G.A.O. investigation changed that," Mr. Hartle said. "It's a very different world for the for-profit college than it was even six months ago."

Mr. Graham said the two locations included in the G.A.O. investigation were outliers, and not typical of what occurs at other Kaplan locations.

But dozens of current and former Kaplan employees said the videos painted a representative picture.

"They are not outliers; they are in the middle of the field, the middle of the bell curve," said William Wratten, a former Kaplan admissions adviser in Chicago, who resigned after a year and a half because he disagreed with company practices. "Maybe not the exact same activities, but the mind-set was the same: Do whatever it takes to get the sale, to keep your job."

Mr. Wratten and other admissions representatives said they were trained to "emphasize that Kaplan is owned by The Washington Post, one of the best newspapers in the country, and that Warren Buffett, and Bill Gates's wife, Melinda Gates, were on our board of directors."

Kaplan officials said that was never part of their training. In response to a question about this, they said they scanned two million recruiting calls and found "Buffett" or "Gates" in only 85.

Four whistle-blower suits against Kaplan under the federal False Claims Act have been

made public in the last few years, all making accusations that the company used deceptive practices in its quest for profits, including enrolling unqualified students and paying recruiters for each student enrolled, a practice forbidden by federal law.

In addition, the suits allege, Kaplan kept students on the books after they dropped out, inflated students' grades and manipulated placement data to continue receiving financial aid.

Three of the suits, from Pittsburgh, Milwaukee and Miami, have been consolidated for trial in Miami. A fourth, from Las Vegas, is pending there.

Kaplan has moved to dismiss all four lawsuits, saying they are the work of disgruntled former employees making false accusations.

No court has yet heard the whistle-blower cases. Although they were filed years ago, the litigation is still in early stages, so Kaplan has not yet had to answer each specific charge.

Whistle-Blower Suits

Kaplan, said Mr. Rosen, its chairman, is a model of higher education for the future, helping working adults — especially low-income and minority students — improve their lives.

"Kaplan is engaged in making the world a better place," he said.

But many current and former Kaplan employees and students — including those, like Mr. Wratten, not involved in the lawsuits — said in interviews that they believed the company was concerned most with getting students' financial aid, and that Kaplan's fast-growing revenues were based on recruiting students whose chances of succeeding were low.

They cite, for example, a training manual used by recruiters in Pittsburgh whose "profile" of Kaplan students listed markers like low self-esteem, reliance on public assistance, being fired, laid off, incarcerated, or physically or mentally abused.

Melissa Mack, a Kaplan spokeswoman, said the manual had not been used since 2006.

Admissions advisers, past and present, say the pressure to recruit students leads to aggressive, and sometimes misleading, sales tactics.

Carlos Urquilla-Diaz, a former Kaplan instructor and administrator who is one of the Miami whistle-blowers, recalled a PowerPoint presentation showing African-American women who

were raising two children by themselves as the company's primary target.

Such women, Mr. Urquilla-Diaz said, were considered most likely to drop out before completing the program, leaving Kaplan with the aid money and no need to provide more services.

"The idea was, we'll take anybody, and I mean anybody," he said.

Victoria Gatsiopoulos, a former instructor and director of career services at a Kaplan College in Pittsburgh, said in her complaint that the school made promises to students of "how their lives will magically change" if they attended Kaplan classes.

One prospective student with financial difficulties, the complaint said, was promised in writing that "in five years she would have a job in a hospital, a big house in Florida, enough money to go to Disney World with her family and a new Lexus."

Ms. Gatsiopoulos said Kaplan representatives routinely misled prospective students about the jobs they could get after graduation.

"One of our biggest programs was criminal justice," she said. "Students who were recruited were led to believe that they could get into the C.I.A. or F.B.I. or Border Patrol or crime-scene investigation when they graduated, and earn $40-$50,000. But those jobs all require advanced training."

In reality, Ms. Gatsiopoulos said, graduates would often get the same $8 to $9-an-hour security guard jobs they could have had without Kaplan training.

Ms. Gatsiopoulos's complaint said that Kaplan also manipulated its reported placement rates so that a graduate employed in sales at Wal-Mart, for example, would be reported as working in accounting management, and that a telemarketer was reported as working in "business administration fashion merchandising."

She also charges that Kaplan would raise instructors' grades for students so they remained eligible for federal aid. Former Kaplan instructors not involved in the litigation made similar claims.

"More than once, when I refused to inflate a student's grade, they went ahead and did it on their own," Ms. Gatsiopoulos said.

Kaplan officials said they had seen no evidence of manipulated grades, inflated placement

reports or unrealistic job promises. But dozens of former students said they felt misled.

Nine years after graduating from high school, Rebecca Masci, a single mother with four young children to support, enrolled in a surgical-technology program in 2004 at Kaplan/CCI in Broomall, Pa., to improve her job prospects.

She took out student loans, lined up her parents to baby-sit, and for three terms, excelled in her classes in anatomy, physiology and pharmacology. But to complete the fourth term and graduate, students need a placement to give her hands-on experience in an operating room. She did not get one.

“When I signed up, they sounded all positive, about plenty of placements, plenty of jobs,” said Ms. Masci, now 32 and with five children. “But after I finished the classes, they told me to go home and wait and they’d call when they found something. I was in limbo for more than a year.”

Eventually, she said, she was given one short placement, not enough to graduate. Now she has $14,000 of debt, but no surgical-technology certification.

“I’m further behind than I was before I started,” she said.

The Future

David Goodstein, who was the school’s director of education for nine months in 2006, said Ms. Masci’s experience was not uncommon.

Mr. Goodstein, who has filed a federal whistle-blower suit against Kaplan, said that although the school had not had enough placement opportunities for the surgical-technology program since 2002, it kept enrolling new students, taking their federal student aid, leaving them stranded without a placement and then dropping them from the program, which was phased out in 2007.

Mr. Goodstein’s lawsuit, filed four years ago, is under seal. But the Post Company’s securities filings disclosed an investigation of the program.

In the Las Vegas case, Charles Jajdelski, an admissions adviser at Kaplan’s Heritage College, said that while cleaning up after an October 2003, graduation ceremony, he found five boxes of diplomas sitting off to the side.

When he asked colleagues about the boxes, his complaint said, they told him they were for

phantom students, kept on the books even though they never attended class. The more questions he asked, Mr. Jajdelski said, the more he was told to drop it.

“When I called Kaplan’s Western regional assistant director, he told me he knew all about it, I shouldn’t worry about it, and we didn’t ever need to have this conversation again,” Mr. Jajdelski said. “I called the human resources guy in Atlanta, and he said, ‘Charles, we need you to be a team player here.’ That knocked my socks off.”

Mr. Jajdelski reported the situation to the Education Department hot line in November 2003, his complaint said. He was fired weeks later. Kaplan officials said the company was unaware of Mr. Jajdelski’s accusations until his lawsuit was unsealed in 2008.

The broadest complaint against Kaplan is the one from Florida, in which the former dean of paralegal studies, Ben Wilcox, is one of three plaintiffs.

Kaplan officials say there is reason to distrust all three plaintiffs.

Mr. Wilcox is under indictment on charges of hacking into Kaplan’s computer system and sending out harassing e-mails.

“They’ll tell you all sorts of terrible things about me,” Mr. Wilcox said, adding that Kaplan is intent on discrediting him because of his access to incriminating evidence. “But the bottom line is that Kaplan is a cold-hearted scam to make money by taking student loans from the government, and leaving students with debt that they’ll never be able to pay off.”

The other two plaintiffs, Mr. Urquilla-Diaz and Jude Gillespie, have both brought unsuccessful discrimination complaints against Kaplan.

Mr. Graham and Mr. Rosen emphasize that Kaplan has made important changes, including its new “Kaplan Commitment,” which allows students to enroll, risk free, for several weeks — thereby eliminating any incentive to recruit unqualified students.

During that period, either the student, or Kaplan, could decide that the program was not a good fit, and end the enrollment.

“Allowing students four or five weeks of conditional enrollment is quite a bold step,” Mr. Graham said. “Plainly, in the short term, it will lead to a shrinkage of enrollment, but we don’t know how much.”