

# Student-recruitment tactics blasted by feds

## Univ. of Phoenix audit leads to \$9.8 mil fine

**Dawn Gilbertson**

**The Arizona Republic**

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AMA government review of the University of Phoenix, the country's largest for-profit university, paints a picture of a school so hungry to enroll new students that it has threatened and intimidated its recruitment staff in meetings and e-mail, pressured them to enroll unqualified students and covered up its practices to deceive regulators.

In a 45-page report obtained by *The Arizona Republic*, the U.S. Department of Education describes corporate culture overly focused on boosting enrollment. The review, based on site visits and interviews with more than 60 employees and former employees, led to the largest settlement of its kind last week. The Phoenix-based university agreed to pay \$9.8 million without admitting any wrongdoing. The report did not address the University of Phoenix's educational quality.

Todd Nelson, chairman and chief executive officer of University of Phoenix parent Apollo Group Inc., called the critical portrait of the school's recruiting practices "very, very unfair" and inaccurate.

"That's not how we do it," he said.

The Program Review Report details several examples of compensation and sales practices the department says range from illegal to unethical to aggressive. Federal law governing financial aid prohibits basing college recruiters' pay on enrollment.

The allegation of hard-sell tactics contrasts with the image the University of Phoenix has cultivated of non-stop demand from working adults who want to better their careers with their employers usually picking up the tuition.

In the report, enrollment counselors interviewed by regulators told of a glassed-in isolation room, called the Red Room, where underperformers were put on display to work the phones under intense management supervision.

A group of San Jose recruiters recalled being told heads would be on a chopping block if its numbers didn't come up; another recruiter said her manager told her she couldn't afford time away from the phone to go to New York for her grandmother's funeral.

Telemarketing and sales are pressure-cooker jobs no matter what the field, but the rules are

different when education is being pitched and taxpayer funds are involved. The Department of Education oversees federal financial-aid programs and has strict rules against paying recruiters based on the number of students they enroll. The regulations are in place to protect prospective students from being pressured and taxpayers from potential defaults on student loans. About 60 percent of the school's tuition revenue comes from financial aid.

Regulators said they found several violations of this law at the University of Phoenix as evidenced by the focus on enrollment numbers at the expense of more qualitative job measures. The report ordered changes. The school received the report in February and responded to it before settling.

The Department of Education said the university was in violation because it:

- "Hires its recruiters with the promise of lucrative compensation for success in securing enrollments."
- "Maintains a recruiter evaluation and salary system that provides incentive payments based both directly and indirectly on success in securing enrollments."
- "Provides substantial incentives to its staff to recruit unqualified students and students who cannot benefit from the training offered."
- "Systematically and intentionally operates in a duplicitous manner so as to violate the department's prohibition against incentive compensation while evading detection."

The settlement resolved all issues in the report.

## **Broad scope**

Nelson said the report, which covers September 1998 through the end of February, was based mainly on interviews with a small group of disgruntled employees and former employees, some involved in a lawsuit filed last year against the company and since dismissed. The government says it interviewed more than 60 people. Nelson says the university has about 5,000 enrollment counselors, 3,000 of them in Phoenix.

He said that outside auditors the company hired to review its compensation plans found no violations of the law and that interviews it conducted with employees didn't turn up the problems cited in the report.

The company did change its recruiter compensation plan in June to make it clearer for regulators, Nelson said.

He said the fact that the government settled the probe speaks for itself. "If we were guilty of everything being said in that report, there's no way they'd be willing to reach a settlement or no way they'd be willing to sign a settlement agreement that says there is no admission of guilt," he said.

Nelson suggested the department overstepped its bounds with the scope of its report.

"It talks about things that really have nothing to do with what the (recruiter compensation) law is," he said, adding that it is not illegal, for example, to fire someone for not enrolling enough students.

Susan Aspey, spokeswoman for the Education Department, said it stands by the report: "We are both firm and fair in our administration of the law, and we act in the best interests of the students and taxpayers. This is the largest fine the department has ever imposed on a school."

## **Industry scrutiny**

The critical report and settlement come amid intense regulatory scrutiny on the for-profit education industry, which has enjoyed soaring growth and rich success on Wall Street. Apollo's stock alone is up 11,000 percent in the past decade.

A couple of Apollo's competitors are reportedly under federal investigation involving financial-aid fraud, and their stocks have sunk.

Apollo has remained the star of the industry, especially in Wall Street's eyes, but a few warts have emerged this year. This summer, the University of Phoenix settled two cases with the U.S. Department of Labor over unpaid overtime for approximately \$6 million.

Last week, in addition to the \$9.8 million settlement for the University of Phoenix, it agreed to pay \$4.4 million to settle a long-running audit of its small Institute for Professional Development.

Company executives and Wall Street analysts hailed last week's settlements as removing a cloud hanging over Apollo. Details of the report were not public at the time.

Nelson referred to the negative tone of the report in a conference call with analysts and investors the day the settlement was announced but gave no hint of its harshness.

Asked by an analyst what wrongdoing the Department of Education had found in its review, Nelson said the school's recruiter pay plan wasn't out of compliance; what was flawed was how the school administered it. He said the new compensation plan, which was planned before the government review, resolved those issues.

## **Misleading practices**

The report says school officials took steps to deceive or thwart regulators during the review, which included on-site visits in Arizona and California a year ago.

It says some managers in northern California told certain recruiters with a reputation for being outspoken to take leave or be out of the office during the review. Others told of posted materials ranking employees by enrollment performance coming down in advance of the visit. In one case, a recruiter saved a computer spreadsheet that had been displayed before the visit and showed it to regulators. In another, Monopoly money used in a contest to drum up applications was taken off a bulletin board, the report says.

Overall, some employees interviewed said that an elaborate pay matrix was about "smoke and mirrors" and that the only thing that counted was enrollments.

Rick Knight, 49, of Ahwatukee, left the University of Phoenix last year after about two years as an enrollment counselor. He recalls constant threats about keeping the numbers up. He said he was a star performer in the beginning, receiving a \$21,000 raise after eight months for enrolling 89 students in the period. But as the school added hundreds of recruiters, there were too few leads to go around.

Nelson said the school has more leads now than it ever has.

Knight was not among the employees interviewed for the program review, but an overtime claim he filed was among those that launched the Department of Labor investigation.

In late 2002, Knight, who has spent much of his career in sales, said he was sent to the Red Room for six weeks, a process he calls humiliating. He says he quit shortly thereafter.

"I have never had a negative review written up about me in my entire employment until I went there," he said.

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Excerpts from the U.S. Department of Education's Program Review Report:

- "UOP's intense focus on numbers and enrollments per recruiter permeates the working day of each recruiter. Managers bombard the recruiters with e-mails daily - listing the top performers based on enrollments, applications, calls and other recruiting activities, with the pace of e-mails pushing numbers escalating at the end of each fiscal year as the annual report deadline nears."
- "The dynamics of public ownership, expectations of investors and lucrative stocks options to UOP officers are integral aspects of the UOP system. Employees at every level are made aware of the importance of meeting the enrollment numbers and revenue expectations of Wall Street on a quarterly basis."
- "(A) number of recruiters stated that the allocation of fresh leads and floor time was both an intimidation and reward tool to manipulate them into more aggressive and/or unethical tactics."
- "UOP makes it very clear that recruiters are to do whatever it takes to get the student to enroll. . . Recruiters . . . stated that they are pressured by management to enroll students who are not qualified."
- "The training program and sales materials for recruiters teaches [sic] them how to use financial aid effectively as a sales tool. One of the strategies is to ask the potential student: 'You can afford \$50 per month for your bachelor's, can't you?' "
- "Recruiters consistently mention the focus and pressure to increase enrollments to report to Wall Street. Many expressed that while UOP at one time focused on the student and stressed ethical conduct, the culture now is one where the emphasis is on increasing the numbers, the stock price and meeting Wall Street's expectations."

# Reactions differ amid large student body

**Judd Slivka**

The Arizona Republic

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With more than 200,000 students across the nation, the University of Phoenix is the nation's largest private university.

Managers of Mexican businesses travel to the university's site in Tucson once a month to work on their MBAs. Older students return for degrees they missed or training that they need.

The school's continued growth is a key measure of its success, according to Todd Nelson, chairman and chief executive of University of Phoenix parent Apollo Group Inc.

"Why would the University of Phoenix be so well received by corporate America, why would it be growing, why would over half of our students be being reimbursed by their employers . . . if it was not a good situation, a good education?" he said.

Customer satisfaction, however, isn't universal. Many current and former students say they thought they had been told they could have finished their programs in much less time.

Starlla Durand of Tempe said that a University of Phoenix enrollment adviser told her that the degree program in human services she wanted would be done in 2 1/2 years, not the five years that it now appears it will be.

"There's a lot of things she didn't tell me," Durand said. "She didn't tell me about my core classes until I finished the first three (general education) classes. She didn't tell me that my credits (from a community college) wouldn't all transfer over. She didn't tell me that I'd have to apply for a leave of absence between some classes, putting my financial aid at risk."

Each class that Durand takes costs about \$970. So far, she has spent \$8,053 on university classes. She'll graduate - she hopes - in April 2006.

## **Aiming for adults**

Since it was founded in 1976, the University of Phoenix has been a market leader in providing education to working adults. On its way to enrolling record number of students, it has found its way to become a Wall Street darling, thanks to its use of technology and part-time faculty to lower the cost of providing education.

"I think it's a very credible degree," said David Longanecker, the executive director of the Western Interstate Commission for Higher Education, a Boulder, Colo.-based organization that helps facilitate research among Western universities. "A very large number of students who are enrolled are supported by their employers. The employers must value the university enough to support it."

And there are people who just like the schedule. Like Frank Byers, whose job was eliminated at Motorola a few years ago. He took the opportunity to go back to school to be a teacher.

"If I could have taken the time off and gone to a regular university, I would have," Byers said. "But I've taken courses at night my entire life and I've done them at the university, and there are people who look like my kids' age. . . . I liked Phoenix because everyone was around my age, had the same situation."

Byers liked his first University of Phoenix experience so much - he received a bachelor's in information technology in the 1990s - that he went back to get his master's degree. The Gilbert resident graduates this Saturday.

But then there's Iesha Hosler, who splits the difference between the two. Last month, Hosler was at a University of Phoenix job fair near her home in Irving, Texas. One of the enrollment counselors came around to where Hosler and her work group were standing.

"He asked if I had any friends or any family members who might want to enroll," Hosler said. "When we told him no, he pressed more. 'Is there anyone you met in a line at the grocery store who might want to enroll?' "

The experience underscored something that Hosler had noticed.

"From the standpoint of classes," she said, "it's been great. But from customer service, it's been very bad."

**Reporter Dawn Gilbertson contributed to this article.**

# How college students obtain financial aid packages

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University of Phoenix students received nearly \$867 million in federal-aid dollars in fiscal 2003.

That's a huge number. In 2002, Arizona State University, which leads all Arizona public universities in the amount of money lent to students, lent only about \$173 million, a year when University of Phoenix students received about \$812 million in financial aid.

The sheer bulk of the University of Phoenix, the largest private university in the nation, makes for those huge numbers.

Financial aid is available to students at almost any private, private for-profit and public university or college in the country. Here's how it works:

A student applies and is accepted to a school but needs some financial help. The student submits his or her financial-aid form to the institution.

From there, there are various paths.

There's the Pell Grant, which is awarded to students with the greatest financial need.

Then there's the Stafford Student Loan, which comes both subsidized and unsubsidized. The current rate for the loans is 2.77 percent while a student is in school and 3.37 percent afterward. Staffords are made by private lenders but are guaranteed by the government.

A subsidized Stafford loan is a low-interest loan, awarded on financial need, in which the federal government pays the interest on the loan until the repayment period begins after graduation. An unsubsidized Stafford loan has the same low rate, but once a student graduates, he or she is responsible for paying the interest that has accrued while in school.

Some students can also qualify for the Federal Perkins Loan, issued through the school based on financial need.

Parents can take out PLUS loans, which are low-interest loans from private lenders that are guaranteed by the federal government.

University of Phoenix students get most of their financial aid, \$804.5 million last year, through Stafford and PLUS loans, which fall under the Federal Family Educational Loan program. About \$62 million of financial aid to University of Phoenix students comes out of the Pell program.

About 6.4 percent of University of Phoenix students defaulted on their loans in fiscal 2003,

which is a higher percentage than at any of the three state universities but lower than at most of the community colleges in the state.

**- Judd Slivka**