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Painful Lessons : Vocational School Folds, Leaves Students in Limbo

Second of two parts.

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NEW YORK — In July, 1980, New Jersey businessman Albert A. Terranova, who was in the midst of two years of probation for illegally obtaining federal job training funds, purchased a bankrupt vocational school in Brooklyn and renamed it Adelphi Institute.

Terranova's criminal record was not discovered by New York officials, and he quickly obtained a license. The school had a meteoric rise.

Within six years, Adelphi Institute (not to be confused with Adelphi University) was the fastest-growing vocational school chain in the country. There were 20 campuses in six states--including eight in Southern California--offering classes ranging from diesel mechanic to word processing.

In 1986, the school took in $26 million in tuition, up from a mere $2.1 million four years earlier, virtually all of it in federal grants and government-guaranteed student loans. Pretax profits averaged 12% a year for the four fiscal years ending June 30, 1986.

In addition to the profits, Adelphi paid Terranova a salary of $325,000 a year and his wife, Melany, the company's secretary-treasurer, received $100,000 a year, according to court records.

That summer, the Terranovas bought a $1.9-million, 9,300-square-foot home, just a short walk from the mansion of rock star Stevie Nicks in Paradise Valley, an exclusive Phoenix suburb.

The quick rise of Adelphi, however, only presaged an even more precipitous fall.

Within a year Adelphi would be in bankruptcy and Terranova would be accused by five students in a civil suit here of using the school as a racketeering enterprise under the same statute used to prosecute Mafia dons.

Those students assert that they were defrauded and contend that Adelphi's true goal was to use them as a vehicle to secure federal funds and make a large profit. When the school closed in September, 1987, it left thousands of students with little to show for their time at Adelphi but debt.

Key Example

Adelphi is now described by experts as among the most egregious examples of the sort of abuses that afflict the vocational school industry in this country.

"This is one of the most dire school situations we've seen," said Robert Guillen, assistant director of the Accrediting Commission of the Assn. of Independent Colleges and Schools, one of the nation's largest school-accrediting organizations.

Roy McDermott, the Illinois State Board of Education's manager of approval for non-public schools, said he has determined that of 1,500 students Adelphi enrolled in Chicago between January, 1986, when the school opened and July, 1987, when it closed, only 100 graduated, and school officials could provide the names of only 10 people who got a "bona fide job offer."

Adelphi failed to pay at least $5 million in refunds owed students at the time of the shutdown, including at least $700,000 in Gary, Ind., alone, according to Philip Rousch, commissioner of the Indiana Commission on Postsecondary Proprietary Education.

Federal Probe

Adelphi's handling of the $80 million to $120 million in federal money it collected between 1981 and 1987, as well as several other matters, is the subject of an investigation by the inspector general's office of the U.S. Department of Education, according to the department and individuals interviewed by investigators. The exact amount is not known because there is no central clearinghouse of information on federally guaranteed student loans.

Terranova declined to be interviewed for this article.

While his empire has withered, Terranova still operates a vocational school in Colorado from his Phoenix headquarters, runs a job-training company in New York and has financial interests in a beauty school in Phoenix and a college and a book publishing company in South Dakota.

It could take years for the class-action racketeering case, the bankruptcy and the federal investigation to be resolved. But the Adelphi legacy may outlast them all.

Adelphi is hardly the only vocational school involved in controversy, but its story raises important questions about for-profit vocational schools in the United States and how they are regulated.

Full-Scale Inquiry Urged

"The Adelphi school case highlights the need for a full-scale investigation by Congress to determine whether or not vocational schools are operating in the best interests of the students," said Rep. Stephen J. Solarz (D-N.Y.), whose Brooklyn district included two Adelphi schools.

This spring, some of the seeds planted by the Adelphi operations will start bearing rotten fruit. Students who were enrolled when the chain shut its doors will start getting notices that it is time to repay their government-guaranteed loans, regardless of what kind of education they received at Adelphi. If they cannot pay, the federal government will reimburse the lenders and then try to collect from the former students.

Maria Gallegos, an East Chicago, Ind., resident, thinks that is unfair. She owes $2,500 on a student loan she took out to attend the Adelphi school in nearby Gary and is now unable to pay. A welfare recipient and the mother of three, she was recruited at a food stamp office and signed up for a computer course. But there were no computers at the school.

'Human Dynamics' Course

So she took other courses, such as "human dynamics," English, business mathematics and typing, hoping that the school would eventually get computers. But six weeks after she enrolled, the school closed.

"I don't want to end up paying for a career I didn't get in the first place," she said. "I was very frustrated, very upset. . . . I felt they had played around with my feelings. I was making A's and B's. Now I'm looking for another school--computers. If you know how to run a computer, you can get a good job."

Terranova, central character in the Adelphi story , is a 51-year-old Rutgers University graduate who worked for the New Jersey Manpower Department before launching several of his own job-training companies. Terranova's first trouble with the federal government stemmed from events that occurred at National Training Systems Corp., a job-training company he launched in Jersey City, N.J., in 1972.

In October, 1977, the U.S. attorney in Newark indicted Terranova, one of his associates and National Training Systems Corp. on 35 counts, including charges that the company had filed false statements with the government and obtained money for work it said it had performed but had not.

Deal Struck

Two years later, a plea bargain was struck. On Dec. 14, 1979, in Newark federal court the company entered a guilty plea to a felony charge of conspiring with Terranova and his assistant, Gaspar Garcia, to defraud the U.S. government.

Terranova pleaded guilty to a misdemeanor charge of "knowingly and willfully" stealing money from the U.S. government by obtaining it under false pretenses. Under oath, Terranova told U.S. District Judge Dickinson R. Debevoise that, among other things, he had obtained government funds for a trainee who, instead of taking his full complement of classroom training, did carpentry and painting work on Terranova's home.

On Feb. 8, 1980, Terranova was ordered to pay a $10,000 fine by Debevoise. The judge also levied a one-year prison sentence, but suspended it and put Terranova on probation for two years.

School Renamed

Five months later, Terranova and his wife acquired a vocational school in Brooklyn called Adelphi's Executive's Schools, founded in 1931. They renamed it Adelphi Institute.

Attorney Rudolph W. Giuliani, who had represented Terranova in the criminal case, drafted the incorporation papers for Adelphi and notarized Terranova's August, 1980, application for a New York vocational school license. Giuliani is now the U.S. attorney for the Southern District of New York and has gained considerable fame for his prosecutions of organized-crime figures and Wall Street swindlers.

In a letter of recommendation to the New York State Education Department, dated Aug. 27, 1980, Giuliani wrote: "Adelphi's management is experienced, dedicated and responsible. No one can, of course, predict the vagaries of corporate fortune or of the economy in general, but based on this corporation's initial, albeit brief, experience, it augurs well for its future." There is no reference in the letter to the fact that Terranova at the time was on probation for a federal crime involving misappropriation of government funds.

Endorsement Defended

Asked about his endorsement of Terranova, Giuliani said in a recent interview: "It is not a glowing recommendation. It is a very balanced lawyer's statement. It's got as many caveats as anything. . . . Management included the person who had been hired as the administrator of the school--Frederick Schulman. That probably was the major thrust of it, the person who was going to manage the school. From what I knew of his management and what was obvious from the record, he was quite experienced. It also included Terranova and his wife, but primarily the manager."

The state of New York awarded Terranova a license. Then, within less than a year--considerably sooner than the normal two-year waiting period--Adelphi was accredited by the Accrediting Commission of the Assn. of Independent Colleges and Schools. This was a critical step for Adelphi, enabling it to become eligible for federal loans and grants, the entree to big money in the vocational school world.

A commission official said Adelphi had been accredited before the normal two-year wait because it had merely continued the activities of a school already in existence, even though Terranova had not assumed any of the liabilities of the old Adelphi, including $275,000 the school owed New York state--money New York was never able to collect.

Big Expansion

Soon after gaining accreditation, Adelphi started expanding, first opening another campus in Brooklyn and then a succession of others in New York, California, Arizona, Michigan, Indiana and Illinois. Eventually there were 20 branches, including schools in Anaheim, Inglewood, Long Beach, Los Angeles, San Bernardino, San Diego, Santa Ana and Van Nuys.

Enrollments burgeoned with aggressive recruiting. Recruiters said in interviews that they were encouraged to seek out applicants at welfare and unemployment offices and other places where poor people tend to congregate, without regard to their potential learning ability.

Renaye Manley said in an interview in Gary that as an Adelphi recruiter in 1985 and 1986 she was told by school officials to recruit anyone she could find, particularly the unemployed, in the economically depressed city. She said some of the people she recruited were alcoholics who signed up only because they were promised "pocket money" from federal grants. After Adelphi closed in Gary last July, Manley said she felt guilty about what she had done.

Aggressive Tactics

Similarly aggressive tactics were used in Los Angeles. Cora Robinson, who taught at the school on Spring Street, said the only way some of her students could have been admitted was if they had been helped with the entrance examination or had their scores inflated. Some students said in affidavits that they were assisted in passing the exam.

Adelphi's official motto was "Where students come first." But in interviews and lawsuits, scores of students tell horror stories about their experiences at the school. These experiences included computer classes without computers, typing classes with broken typewriters, classes with students at radically different achievement levels and absent or unqualified teachers.

Daisy Moy, a 32-year-old resident of Coney Island, N.Y., is one of the plaintiffs in the New York class-action lawsuit against Adelphi filed under the Racketeer Influenced Corrupt Organizations Act and the Higher Education Act of 1965. She described her experiences at the school in the lawsuit and in a lengthy interview.

Moy said she was first approached at a Brooklyn welfare office by an Adelphi recruiter who promised her she could make $500 to $600 a week after seven months of computer study at Adelphi. "That sounded good to me," said Moy, who dropped out of school in the ninth grade.

'I Can't Divide'

She said she was told that she passed the admissions test, even though "I can't divide." She said the man who graded the exam told her, "You need to improve in math."

After taking the test, she was sent across the street to Manufacturers Hanover Trust Bank to sign up for a federally guaranteed student loan. She got one for $2,500, along with a $2,500 federal grant.

Moy said her experience at the school was one frustration after another. One day in a computer concepts class, Moy recalled, she asked a teacher a question and he responded, " 'That's tedious. We'll get back to it.' We never got back to it. I didn't know what tedious meant. I had to look it up," Moy said during the interview.

She said she was almost always placed in classes that had already started, forcing her to play catch-up. "The only class I started from scratch was typing," she said. And in that class, there were not enough functional typewriters for all of the students, according to an affidavit she filed in the class-action suit.

Aided on Exams

She also asserts in the suit that there were not enough teachers at the school and that she received help passing her entrance examination.

Moy said that she tried to change schools but that her welfare caseworker said she could not do so because she could neither pay off nor transfer her loan. Nor could she receive additional financial aid at another school while the first loan was unpaid.

So she kept going. Eventually, Moy got a certificate of completion from Adelphi, but it hasn't done her any good. She returned to a world of $5-an-hour part-time jobs, trying to support herself and her two children. She recently earned her high school equivalency degree by taking free classes at a community college. She still hopes to study computer technology but will not be able to get another student loan until her Adelphi debt is paid off.

'Got in Deeper'

"When I first went to Adelphi, I had my head blown up," she said. "I thought, I'll have a steady job and my problems will be over. Instead of getting out of the hole, I got in deeper."

So did a lot of other Adelphi students, even those who dropped out early and were entitled to tuition refunds under Adelphi's rules.

When a student dropped out of school, Adelphi was supposed to send checks to banks and other lenders to defray the unused part of the student's guaranteed loans. But when Adelphi closed, according to documents on file in federal bankruptcy court in New York, at least $5 million in refunds remained unpaid.

Adelphi's failure to pay the refunds meant that banks or the federal government would attempt to collect on the debts from former students--including students who had been told by Adelphi officials that the banks had been repaid by the school.

Refunds Stopped

In a deposition on Jan. 19, 1988, Robert E. Barnes, former treasurer of Adelphi, acknowledged that the school stopped paying student refunds in September, 1986, a year before it ceased operations.

Adelphi's teachers also had plenty of complaints.

Teachers said they were poorly paid, and many said they had to take second jobs to make ends meet. Instructors at the school in Warren, Mich., angry over wages and working conditions, voted for union representation. But Adelphi officials refused to sign a collective bargaining agreement, and federal charges of unfair labor practices were pending against Adelphi when the school shut down.

Several Adelphi administrators defended their performances while acknowledging broader problems. "I did a good job," asserted Kenneth Hendershot, who ran the San Bernardino campus for about two years. "I eliminated a lot of the problems. I literally slept at the school some nights." Hendershot is now education director at another school and said he has hired several former Adelphi employees whom he described as "talented" and "dedicated."

"When I joined Adelphi (in October, 1984), it looked like a great place to have a career," said Philip Faden, now an executive at a vocational school in Salt Lake City, who was an Adelphi administrator for 2 1/2 years in the mid-1980s.

Unceasing Problems

But Faden said he encountered unceasing problems. One of the most revealing, he said, came near the end of his stint as Adelphi's Midwestern director in Chicago. In response to complaints from teachers at the Gary campus, he called the corporate office in Phoenix to implore them to send needed computers. He said promises were made that the machines would be sent.

However, Faden said the Gary campus was provided with computers for exactly two weeks in the spring of 1987. That was when officials from the Assn. of Independent Colleges and Schools were coming to the Gary campus as part of an accreditation review. He said that as soon as the association's team left, corporate officials ordered the computers shipped back to Phoenix.

Most of the former administrators described Terranova as intelligent, and Hendershot called him "brilliant."

Edward Shapiro, a New Hampshire-based educational consultant who worked for Adelphi in the first half of 1987, said he thought Terranova was a victim of an improved economy that caused Adelphi enrollments to drop, causing financial troubles at the school. But that was a minority view.

'Wanted to Be Rich'

"He just wanted to be rich," not to educate students, said Mical Buck, who worked as an administrator at several Adelphi campuses and is now a consultant to a vocational school in San Francisco.

Buck, as did several other former Adelphi employees, said she is concerned that what happened at Adelphi has tarnished the image of other vocational schools. "I'm in a good business," she declared. "I'm in a clean business. I get people off welfare. I used to be in social services. I do what I do because of the Chinese proverb about teaching people how to fish rather than giving them fish."

Two Adelphi administrators filed suits in California, alleging that they had been fired for refusing to participate in falsifying student financial records. One of the cases is pending. The other was settled out of court in Orange County. Terms of the settlement prohibit the plaintiff from discussing the case.

Starting in 1982, problems at Adelphi were brought to the Department of Education's attention both by department staff and by various state officials, according to internal department documents obtained by The Times under the Freedom of Information Act.

Audits Lagged

Federal records also reveal, however, that required audits of the school were not performed rapidly, nor were they reviewed swiftly by the Department of Education. For example, an audit of Adelphi's administration of student grant and loan programs for the three years that ended June 30, 1983, was not completed until Nov. 4, 1985, and the department did not send it back to Adelphi for comment until May 19, 1986.

Audits by the Department of Education and state agencies starting in 1984 found widespread examples of late refunds--a problem that grew as time went on. Auditors also found the school certifying for loans some students who had already dropped out of classes, admitting students under questionable circumstances and continuing to collect tuition from students who should have been flunked.

The records show that John H. Keefe, acting branch chief of the department's lender review program in San Francisco, frequently urged superiors to take a closer look at Adelphi, generally without success. In a recent interview, however, Keefe was unwilling to criticize his superiors.

Elizabeth Imholz, a South Brooklyn Legal Services lawyer who filed the class-action suit against Adelphi in federal court in New York, was critical of the Department of Education's failure to take action earlier against the school.

'Failed to Act'

"The department was aware of the very serious problems at Adelphi for years but failed to take any corrective action to protect student interests," she said, noting that the department's postsecondary education division has the authority to limit, suspend or terminate a school's participation in federal grant and loan programs.

Kenneth Whitehead, acting assistant secretary for postsecondary education, replied that in August, 1986, investigators for the department's office of program review found that "the situation (at Adelphi) was so bad" that it was referred to the department's inspector general for potential legal action. The inspector general's office still has the matter under review, he said.

"If there was a holdup, the department has to take the heat," Whitehead said in a telephone interview.

Earlier in 1986, the New York state comptroller's office found that none of 75 Adelphi students whose records were reviewed by the agency had been given enough instruction to qualify the school to receive money from the state Tuition Assistance Program. The report recommended that Adelphi refund $2.9 million to the state. After a protest by Adelphi lawyers, state officials conducted another review and made the same recommendation. The bulk of the money had not been repaid when Adelphi declared bankruptcy.

Accreditation Move

Also in 1986, the Accrediting Commission of the Assn. of Independent Colleges and Schools launched an investigation, and in December, 1986, attempted to revoke the chain's accreditation. A loss of accreditation would have prevented the schools from receiving any more federal funds--a move that would have crippled Adelphi because virtually all of its students were aid recipients.

The accrediting commission found numerous problems in both the educational programs and financial record-keeping at four branches, including a 90% turnover in faculty members in one year at the Fulton Street campus in Brooklyn. Only 2.5% of the 1,617 students who enrolled at the Fulton Street campus in its two years of existence completed their programs, according to a commission report.

"The pattern of inaccurate and incomplete student records, untimeliness of refunds, staff turnover, high attrition and low placement identified in the evaluation team reports on the Los Angeles, Gary, Brooklyn and Chicago branches calls into question the overall administration, control and educational quality of the entire institution," according to a letter from the commission to Terranova.

Firm Goes to Court

The independent colleges association temporarily revoked Adelphi's accreditation, automatically disqualifying the school from receiving federal funds--for the first week in April, 1987. Then, on April 7, Adelphi secured a temporary restraining order in Phoenix federal court reinstating the accreditation. The school asserted that its due process rights had been violated.

On May 5, Adelphi reached a settlement with the commission. It agreed not to enroll any new students at the Chicago, Gary and Los Angeles campuses and to close those campuses by the end of the year. It also agreed not to open another school for two years on the site of the already-closed Fulton Street campus. In return, it retained its accreditation.

But Adelphi's problems intensified on May 15, 1987, when five former students filed the civil class-action racketeering suit in federal court in Brooklyn. The suit alleges that Adelphi and seven of its officials, including the Terranovas, defrauded thousands of students by bilking them of government grants and federally guaranteed student loans.

'Pie-in-the-Sky'

The suit, which asks for $10 million in damages, charges that the school made "pie-in-the-sky promises of employment opportunities" to students and used them to collect federal money but failed to provide adequate vocational training.

The Terranovas and five other individual defendants filed a general denial of the charges two months later. But that same month--July, 1987--Terranova abruptly filed a Chapter 11 bankruptcy petition for Adelphi in New York City. At the time, Adelphi had $8.9 million in unsecured debt, according to the bankruptcy papers.

Two months later, despite an earlier pledge in an affidavit to the New York bankruptcy judge to reorganize the company and keep the schools operating, Terranova abruptly closed all the Adelphi campuses, leaving thousands of students with incomplete educations and millions of dollars in debt.

It will be some time before a full picture of what happened at Adelphi becomes clear. However, a partial explanation of how the school got into so much financial trouble so fast is found in depositions that Terranova and Barnes, Adelphi's former treasurer, gave in connection with the pending bankruptcy of Midwest Educational Systems Inc., a vocational education company based Rapid City, S.D., that Terranova operated until recently.

Barnes, who was Midwest's treasurer and who has worked for four other Terranova-controlled companies, said in a deposition that in May, 1986, Adelphi loaned Midwest about $400,000 to meet payroll needs.

3 New Schools

Then, starting in June, 1986, after Terranova acquired three financially ailing California schools called Sierra College, there were "very frequent" transfers of money among all of Terranova's companies, Barnes testified. During the next three months, Midwest lost $1,178,000 on Sierra College, Barnes said.

Terranova asserted that Adelphi's condition had been impaired by a preoccupation with the accreditation battle. In an affidavit he filed with the bankruptcy petition, he said total enrollment had plummeted from 4,700 to 2,350 between April, 1986, and May, 1987. He also said the school had been "unable to hire a sufficient number of experienced high-level management personnel."

Last October, Adelphi's Chapter 11 petition was changed to a Chapter 7 bankruptcy--liquidation--which is pending. The company's current posture is that it has no assets, but a bankruptcy trustee is hoping to find some.

Indiana Lawsuits

Since it appears that it would be difficult to recover any damages from Adelphi, a group of students in Gary filed two suits in Indiana federal court in December against the Department of Education, banks that worked with Adelphi and the Higher Education Assistance Foundation, the guarantor of many of the loans, asserting that those institutions bear some responsibility for Adelphi's actions. The cases are pending.

If students are unable to pay off their loans, the government won't forget them. The students' names will go into a computer and if they eventually become employed, the Internal Revenue Service and state tax agencies will withhold income tax refunds until the loans are repaid.

Several state education officials, the Higher Education Assistance Foundation and Rep. Solarz said they have urged the Department of Education to forgive the indebtedness of at least the Adelphi students who were enrolled when the chain shut its doors. The department opposes the proposal. Even if it agreed to let those students off the hook, it would not help those who dropped out before Adelphi closed. Adelphi admits that it owes $5 million in unpaid refunds to those dropouts.

"The tragedy to the students is inestimable," said Mary Reiss, associate director of higher education management for the Michigan Department of Education. "They (Adelphi) took people from the streets; they've wrecked the rest of their lives. . . . They've lost faith in education. I consider that the worst thing that Adelphi has done."