

## Baltimore's All-State Career School is in federal law-enforcers' cross-hairs



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UPDATED: June 28, 2019 at 4:56 AM EDT

**All-State Career School**, a trade school in Baltimore for would-be truckers, healthcare workers, and others seeking a route to gainful employment, is apparently under federal criminal investigation for possible violations of U.S. Department of Education (DOE) regulations meant to ensure the lawful disbursement of federal student aid. The school, which receives city funds to help pay students' tuition, is also one of 27 schools that, according to DOE data released in October, is not complying with requirements that for-profit schools derive less than 90 percent of their revenue from federal student aid, out of almost 2,000 schools that fall under the regulations. The All-State probe first became public early this year, when two former All-State admissions representatives and a former testing administrator for the company were sentenced in Maryland federal court for a conspiracy to boost the school's enrollment by engaging in a test-cheating scheme that enabled ineligible students to access federal student loans and grants. The cheating scandal involved changing the answers on pre-admissions tests taken by approximately 170 prospective All-State students, and about 72 of them ended up improperly receiving almost \$575,000 in federal student aid, including Pell grants for non-degreed students in financial need.

At the January sentencing hearing for former All-State admissions representative Jesse Raymond Moore, Sr., Assistant U.S. Attorney Martin Clarke told the judge that "we endeavor to investigate the school that Mr. Moore worked for, investigations continue," according to a transcript of the hearing. Moore "is not the only one who has assisted the Government" in the All-State investigation, Clarke continued, "but the Government need[s] as many people as possible to get at an inside look on how the school was conducting itself within the Department of Education regs for Federal financial assistance for their students."

The Maryland U.S. Attorney's Office declined to confirm whether the investigation remains ongoing, and the top leaders of the company that owns All-State, White

Marsh-based Education Affiliates (EA)—chief executive Duncan Anderson and chief financial officer Stephen Budosh—did not respond to a detailed email asking for comment. Education Affiliates is one of the largest privately held companies in the Baltimore region, with revenue pulled in from seven schools it operates at about 50 campuses across the country, according to its website.

An attorney who currently represents EA in an unrelated civil lawsuit, Richard Hafets, said, “I seriously doubt that anyone at Education Affiliates or any of its related entities will want to comment,” when asked if he could pass City Paper’s inquiries on to his clients.

The school is part of an industry providing for-profit education that has erupted in controversy in recent years, as Clarke noted at the sentencing hearings of the All-State defendants. Pointing to “a trend” in which schools, “especially trade schools,” do “not take the regs of the Department of Education seriously,” Clarke stated that “in those institutional cultures, a lot of things that are deemed criminal by Federal law are taking place.”

At the sentencing of another former All-State admissions representative, Barry Sugarman, U.S. Magistrate Judge Timothy Sullivan echoed Clarke’s sentiments. Calling Sugarman “a small cog in a large wheel,” Sullivan said that “when you engage in a conspiracy to misuse or abuse” the regulations, “all you are doing is lining the coffers of your own business” by engaging in “a conspiracy to defraud the Government” while “not caring about the people that are in your school in the first place.”

Moore, Sugarman, and a test administrator, Jacquelyn Sue Caldwell, who worked for All-State under contract with her employer, the testing-service company Wonderlic, pleaded guilty to “conspiracy to defraud a student financial aid program,” according to a Federal Bureau of Investigation (FBI) press release about their case. “Students without high school diplomas who applied to for financial aid to attend” All-State “were required to pass” the Ability to Benefit (ATB) test to “demonstrate their aptitude to complete the educational program and work in the field,” Maryland U.S. Attorney Rod Rosenstein said in the release, but “by cheating, the defendants defeated the purpose of the tests and defrauded the government.”

The three defendants received light sentences. Moore was put on probation for four years and assessed a \$2,000 fine, while Sugarman got two years probation and a \$5,000 fine and Caldwell was imprisoned for one day of time already served, and three years of supervised release. Attorneys for Moore, Sugarman, and Caldwell did not respond to City Paper’s request for comment.

Court documents show that the investigation included the use of “confidential sources” (CSs) and “undercover agents” who “applied for admission to All-State and

intentionally failed the ATB test,” but the defendants would assure that the failing students would pass the ATB on their second attempt. Sugarman, for instance, “became aware through another Admission Representative” that Caldwell “could ensure that students who failed the ATB the first time would pass it the second time,” the court records state, because “she could manipulate the results to give them a passing score.”

In one instance, Sugarman informed a prospective student who, unbeknownst to him, was a CS, that he had “passed the second ATB test (even though the CS intentionally gave wrong answers to purposely [sic] fail the test),” the court records state. Referring to Caldwell, Sugarman told the CS that “she won’t do it the first time” because “she says, they gotta at least make an effort. She says I’ll work with them a second time.” The CS responded to the passing-grade news by saying, “Look, ask no questions, tell no lies.”

Another episode included in the court files suggests that changing test answers wasn’t the only way that the admissions and financial-aid apparatus at All-State prompted fraudulent outcomes. Court records state that Sugarman, while advising undercover agents posing as applicants who had not filed tax returns in previous years, would tell them “to understate their income” on the Free Application for Federal Student Aid (FAFSA) so that they could “qualify for the maximum amount of Pell grants and student loans.”

One undercover agent in the All-State investigation was taken to the school’s financial-aid department by Sugarman, who “told the financial aid representative that he earned between \$25,000 to \$28,000 the previous year, but he was a ‘non-filer,’” the court records state. “The representative suggested that they put down \$1,500 as earned income for that year” in the FAFSA, and “as a result of the undercover agent’s under-reported income, the DOE awarded him a Pell grant for \$3,330, \$4,000 in federal unsubsidized loans, and \$2,333 in subsidized loans.”

“Trust me,” Sugarman told the undercover agent as he explained why and how he should under-report his income in the FAFSA. “I do this enough. You’re not doing anything wrong,” adding that “they’re not the fucking IRS up there.”

In November, the City of Baltimore’s Board of Estimates (BOE) approved \$25,000 for the Mayor’s Office of Employment Development (MOED) to help pay All-State tuition for job-seeking clients. Mary Sloat, MOED’s assistant director for workforce operations, did not have data about the full extent of the city’s payments to All-State, but BOE records show \$15,000 approved in November 2011, \$18,000 in June 2012, and \$20,000 in January 2013.

The All-State scandal shares traits with another federal prosecution, just announced in Florida against the owner and three admissions representatives of the now-shuttered

Fast Train for-profit school. The four allegedly defrauded the government by “recruiting students who were not eligible for federal student aid and falsifying student aid applications in order to obtain federal Pell grants and Direct Loans,” according to the FBI press release about the indictment. The scale of the alleged Fast Train scheme was larger than what was proven so far at All-State, though, with about 1,300 fraudulent applications bringing about \$6.5 million in federal student aid into Fast Train’s coffers.

The for-profit education industry draws about \$30 billion per year in federal student-aid funding, and its poor public image has come as a result of critical government investigations in recent years, prompted by allegations that the schools aggressively market their programs, enticing enrollees into high levels of debt without adequately preparing them for the job market after graduation.

The ongoing controversies have prompted federal reforms aimed at improving student outcomes. One, called the “90/10 rule,” requires almost 2,000 regulated for-profit schools to have at least 10 percent of their revenues from sources other than federal student aid. All-State and another EA school, Fortis College in Florida, were among 27 schools nationwide that are currently noncompliant, a status that puts their eligibility to participate in federal student-aid programs at risk.

On Oct. 31, DOE announced a new set of “gainful employment” rules, after its previous reform effort was derailed by a federal judge’s ruling that it was too arbitrary. This time, schools will lose their eligibility to participate in federal student-aid programs if they cannot demonstrate that their typical graduates’ estimated annual loan payments are 20 percent or less of discretionary income or 8 percent of total income.

The for-profit schools’ main trade group, the Association of Private Sector Colleges and Universities, of which EA’s schools are members, immediately filed suit to stop the new gainful-employment rules, which are set to go into effect next summer.

U.S. Secretary of the Department of Education Arne Duncan, in a statement, deemed that new regulations are “a necessary step to ensure that colleges accepting federal funds protect students, cut costs, and improve outcomes. We will continue to take action as needed.”

*Originally Published: December 2, 2014 at 3:39 PM EST*