

REPORT ON THE STRUCTURAL CHANGE SITE VISIT

To: United States University

Change of Ownership

May 1, 2014

Team Roster:

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The team conducted its review and evaluated the institution under the 2013 Standards of Accreditation and prepared this report containing its collective evaluation for consideration and action by the institution and by the WASC Senior College and University Commission. Formal action is taken by the Commission and is described in a letter from the Commission to the institution. This report and the Commission letter are made available to the public by publication on the WSCUC website.

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SECTION I – Overview and Context

A. Description of Institution and the Proposed Change

United State University (USU) is a for-profit institution located in Chula Vista, California. It offers undergraduate and graduate programs in the fields of health science, nursing, education, and entry-level business degrees to approximately 412 students (Spring term II, 2014). USU employs 86 adjunct faculty and fewer than ten core faculty.

The institution was founded as InterAmerican College in 1997 in National City, California, with a mission of educating working adults, Latinos, and educated immigrants. InterAmerican was accredited by WASC in 2009. On December 1, 2009, it became a for-profit institution when the ownership of the institution changed to Educacion Significativa, LLC (ESL), a Delaware limited liability company that is controlled by Significant Ventures, LLC, an entity that, in turn, is indirectly owned and controlled by Michael Clifford. The name change to United State University occurred in April 2010. Ten substantive change proposals (including resubmissions) were submitted in 2011 and three in 2012. Programs offered through the distance education modality were expanded and a new site was opened in Cypress, California. Despite the new program offerings, student headcount fell from 443 in Fall 2011 to 249 in Fall 2012.

Linden Educational Partners, LLC, a Delaware limited liability company (Linden), became a non-voting investor in ESL in May 2012. Dr. Oksana Malysheva, President and CEO of Linden, joined both the Board of Trustees of USU and the Board of Managers. Linden invested \$10.2 million in USU in 2012, \$6.4 million in 2013, and \$550 thousand in 2014. Most of the current senior administrators were hired between July 2012 and January 2013, including the President, Provost, CFO, VP Marketing, VP Admissions, and VP of Compliance and Regulatory Affairs.

A Special Visit took place on April 25-26, 2013, to investigate the impact of the transactions between Linden and ESL and consequent leadership changes and capital infusions to USU. The visit also focused on growth of new degree programs; financial status; strategic planning and alignment with mission; faculty and staff qualifications and sufficiency; and complaint and grievance policies. As a result of the team's findings, the Commission imposed Probation on June 21, 2013.

In the agreements governing Linden's investment in ESL, Linden retained the right, subject to prior approval of WASC, to convert its non-voting investment to a controlling position. The principals of Significant Ventures and Linden have initiated the process to transfer ownership of USU to Linden. Dr. Malysheva is expected to continue to serve as a member of the Board of Trustee and would gain the right to appoint the members of the ESL Board of Managers.

The mission statement adopted in 2010 was: “The University strives to become the premier institution of higher learning aimed at addressing the professional higher education needs of underserved groups with a special emphasis on Hispanic and immigrant communities in Southern California by offering high quality, very affordable, learner-centered, and career-oriented undergraduate and graduate degree programs and certificates with a strong student-supported environment derived from the “La Familia” approach.”

A process that involved administrators, the board, staff, and faculty, resulted in a broadening of the mission statement in October 2013: “United States University provides professional and personal educational opportunities, with a special outreach to underserved groups. Through campus and online courses, the University offers affordable, relevant, and accessible undergraduate and graduate degree programs and certificates in a supportive, student-centered learning environment.”

A Substantive Change Committee panel, composed of David Ely, Cynthia Matson, and Steve Varvis, reviewed USU’s change in ownership proposal and then spoke with the institutions’ representatives during a conference call held on April 15, 2014. In preparation for the conference call, the panel reviewed several documents pertaining to the change-in-ownership transaction, a legal review of the transaction between the Linden and the United States University prepared by Hirschfeld Kraemer, LLP dated March 28, 2014, USU budgets for 2014-2017, USU’s Strategic Plan 2014-2015, USU’s Board of Trustees Bylaws, minutes for the October 2013 and January 2014 USU Board meetings, and a document describing the change to the USU mission statement. The panel also had access to the Report of the WASC Special Visit Team to USU on April 25-26, 2013, the associated WASC Action letter dated July 10, 2013, and the institution’s response to the action letter dated August 5, 2013. The panel took action to move the matter forward by scheduling the Structural Change site visit. David Ely and Cynthia Matson were designated as the panel’s representatives and conducted the site visit on May 1, 2014.

B. Description of the Team Review Process

The purpose of the site visit was to fulfill the federally mandated requirement for a site visit arising from a change in ownership. Prior and during the visit, USU made available several additional documents: organizational charts, enrollment forecasts for 2014, sample program learning outcomes and curricula maps, and financial statements.

The visit to USU started at approximately 9:45 a.m. on May 1, 2014, and concluded at approximately 4:30 p.m. During this time, the team met with senior administrators, including the Interim President/Provost, CFO, VP Compliance and Regulatory Affairs, VP Admissions, VP Marketing, Executive Assistant and Human Resources Manager, college deans, all members of the current Board of Trustees, a large faculty group, staff, and five students. The team also toured the building housing USU’s classrooms, offices, and labs.

The team very much appreciated the efforts of administrators and faculty at USU to provide materials in advance and to be available for the meetings throughout the visit. Conversations during the visit were very helpful to the team in understanding the impact of the change in ownership on the mission and operations of the institution.

The discussions with administrators, faculty, staff, and students focused on five issues outlined in the action letter of April 17, 2014: enrollment management, strategic priorities, governance, educational effectiveness, and finances.

SECTION II – Evaluation of the Proposed Change

Efforts to turn around the institution began in mid-July 2012 with a major investment by Linden. Since that time, a new administrative team and been put into place and they have acted to improve the financial performance of the institution and the quality of the academic experiences of students.

A. Enrollment Management

Enrollment growth is essential to boost revenue and eliminate the deficits USU has experienced in recent years. The team sought to understand the underlying assumptions about enrollment growth that would allow the institution to achieve its forecast of positive net income in 2015 and beyond. The team was also interested in understanding how the composition of the student body might change with faster growth. Finally, the team explored how the institution was using enrollment projections at the program level to determine the viability of programs and to align marketing efforts and other resources to program priorities. (CFR 1.1, 3.1, 3.4, 3.5, 3.7, 3.8)

USU forecasts its operations will generate net income of -\$2million in 2014. However, USU forecasts it will then become profitable with net income rising to \$1.7 million in 2015 and \$3.4 million in 2016. This is due to revenue rising from \$7.8 million in 2014 to \$12.2 million in 2015 and \$14.3 million in 2016. Given USU's goal of offering affordable tuition, revenue growth must be largely driven by enrollment growth.

Enrollments are rising at USU. At 412 students, current enrollment is significantly higher than in Spring 2013 (239 students) and higher than what was projected (367 students). The institution projects further expansion to 601 students in the second term of Fall 2014. If these forecasts are reached, enrollment will have about doubled since Fall 2013. For Spring 2014 II, enrollment measured by headcount, is concentrated in the areas of nursing (33%), health science (29%), business (17%), and education (11%). The forecasted growth through Fall 2014 does not significantly alter the distribution of students by department.

To support enrollment growth, a professional staff has been hired and more robust enterprise systems have been installed. Admissions administrators noted that the newly

adopted Salesforce software will allow them to better pinpoint conversions of inquiries to students and will integrate well with other systems such as CampusVue. Admissions staff expressed that they now have data they can trust, unlike in the past. Admissions administrators and deans described the establishment of program-level enrollment targets as an interactive and inclusive process. Board members also indicated that they are asking for and receiving reports on enrollment patterns and are focused on marketing effectiveness and retention.

The mission statement adopted in 2010 expressed the goal of serving “underserved groups with a special emphasis on Hispanic and immigrant communities in Southern California.” The principal of Linden Education expressed the goal of attracting immigrants with medical training but who cannot practice in US into nurse practitioner programs. The newly adopted mission statement broadens the focus to “special outreach to underserved groups.” Based on discussions with administrators, campaigns will target military personnel and prospective international students. A recruiter for each of these target populations is in place. USU also plans to recruit students for their degree programs who are enrolled in courses offered through their Division of Extended Education. An agreement to lease classroom space to a local charter school will also provide leads to students enrolled in the charter school. Finally, the Cypress campus in Orange County is not expected to be a source of growth since no students currently attend classes at that facility.

Based on existing enrollment data and conversations with USU administrators, it is clear that the institution has made significant progress on enrollment management over the past year. Staff and information systems have already been put in place to effectively recruit students. The change in ownership will not impact the plans that exist now. However, these resource changes are relatively new so data on their effectiveness is only now becoming available. Future visiting teams will want to examine enrollment growth patterns to more fully evaluate the institution’s capacity to recruit students and the impact it has had on the composition of the student body.

B. Strategic Priorities

The report of the Special Visit Team based on their visit in April 2013 expressed concern over the large number of programs relative to the numbers of students and faculty. Additionally, USU is prohibited from offering new programs while on probation. The team sought a greater understanding of the institutional priorities and how resources are being aligned with these priorities and how longer-term strategic planning would be conducted to prepare for a post-probationary period. (CFR 1.1, 1.7, 2.1, 2.10, 3.1, 3.3, 3.5, 3.6, 3.10, 4.2, 4.4, 4.6, 4.7)

The institution is currently being guided by a 2014-15 plan written to turn the institution around and bring it into compliance with WASC standards. This plan was approved by the Board in January 2014 and focuses on three areas: (1) academic quality (e.g.,

establish PLOs and curriculum maps, establish process for five-year program reviews, track retention rates, gather course evaluation data, and expand institutional research capacity), (2) financial sustainability (e.g., assess viability of degree programs, boost revenue and achieve net surplus by 2015, multi-year budgeting, and remove expense associated with Cypress facility), and (3) accessibility (e.g., implement new learning management system, installing lead management software system, install student information software system, improve student services, and develop division of extended education). Notably, four programs have been discontinued. The largest numbers of students are enrolled in nursing and health science programs; programs that have been historically emphasized. While enrollments are currently lower in business and education programs, administrators view these as key programs with potential for future growth. Most programs are offered in both the on-ground and online modalities. The exceptions are the MS Health Science program (offered on-ground and hybrid), the California Teaching Credential (offered on-ground and hybrid), and MS Nursing / Family Nurse Practitioner (offered on-ground and hybrid).

The team discussed strategic planning with a group of senior administrators, the Board chair, and a consultant who has been working with faculty on assessment of learning. This group expressed the view that timing will soon be right to begin long-term strategic planning. Steps toward developing a post-probationary strategic plan will likely begin in June. The process that was described is one with broad community participation focused on what the institution should look like in the future and what needs to happen to reach that vision. It was also described as data driven with quarterly milestones. Board review and approval may occur in late 2014 or early 2015.

Based on a review of the latest enrollment data, plans for recruitment, the 2014-15 strategic plan, and discussions with senior administrators, the team reached several conclusions regarding strategic priorities. First, the institution will continue to target the underserved student populations it historically targeted and that the nursing and health science programs will continue to be important to the institution. More time will be needed to evaluate the extent that international students and students attached to the military will comprise the student body. It is also unclear at this time whether the mix of on-ground and online students will change with enrollment growth. Second, the institution is committed to implementing the strategic plan in ways that meet WASC standards, and important progress has been made. The overall success of the plan can be better assessed after the institution has had more time to observe its impact, especially on recruiting and institutional research. Third, strategic priorities should come into clearer focus after the development of the next strategic plan written to guide the institution after 2015.

C. Governance

The team wanted to learn more about the role of the Board of Trustees in governance and how, in practice, it will work with the Board of Managers. The team also wanted to learn

about the role of faculty in governance. (CFR 1.5, 3.9, 4.6) It is noteworthy that all members of the Trustees' participated either in person or by phone. The board has recently added new members with a focus on building capacity and knowledge of higher education practices, accreditation standards and academic knowledge of curriculum development. The recently appointed board Chair a retired university President provides leadership and requisite knowledge about the strategic role of the board in the governance process. A senior board member, articulated a board commitment towards building and facilitating a culture of compliance within the organization. Furthermore, he suggested that this moves beyond "checking boxes and filling out forms, but rather knowing and doing the right things that will advance the institution." (CFR 3.9, 4.6)

Board independence is prevalent within the committee structures and the roll-up structure of all operating decisions. Each committee chair ably described the role of their various standing committees (Academic, Finance, Audit and Nominating) in sufficient detail and consistent with the board bylaws. The board has undergone board training and has outwardly expressed their commitment to receiving sufficient information from management to knowledgeably govern with business plans and adequate metrics for committee analysis and data-driven decision making. The board is focused on transparent leadership, institutional development, the implementation of accountability metrics and making decisions that will support short-term fiscal oversight, long term sustainability and earning WASC good standing. The entire level of professionalism by the board is on a positive evolutionary trajectory. The board recognizes and supports student retention, recruitment that aligns with the strategic plan-focused markets and most importantly fiscal survival and viability. The board is working with management to secure facile real-time reports and dashboards from the new enterprise systems (Salesforce and CampusVue).

The board was queried about Linden Education's representation amongst the directors. Board members described the principal at Linden as a primary investor with an interest in open-decision making. The practices of the board include leveraging the expertise, technical skills, and synergy via the committee structure and supported by the full board. Linden's principal investor is an active participant in board discussions; however she does not monopolize or overly influence board decisions. President Cole encourages all board members to discuss operational tactics and strategies with the leadership team and Linden's principal engages in that practice, particularly in the areas that involve marketing.

The nominating committee is chaired by an interested board member; however a process is in place where all board members, including all independent members may also nominate board members and officers. The proposed change in ownership may bring about a change in the membership of the Board of Managers. Linden's principal investor has not yet identified prospective BOM appointees and further information should be explored at the site visit to solidify the actual practice and its role on the governance process.

The faculty demonstrated a renewed sense and clarity on their roles and responsibilities in the governance process. The core faculty and part-time lecturers have a shared responsibility in the recently established academic senate and have eagerly assumed responsibility for curriculum, academic policy and student issues. The team's understanding is that the core faculty are those who are employed full time while adjuncts are employed less than full time. However, faculty stated that adjuncts are given the same respect as core faculty, attend meetings, and communicate regularly with deans. Indeed, the chair and vice-chair of the Faculty Senate are adjunct faculty.

The four academic deans also have embraced a greater responsibility in governance over academic administration. The faculty and deans expressed satisfaction with the focus of the new administration to provide technical expertise and human resources for enrollment, marketing, academic administration, and student learning outcomes which have made time and human resources available for the faculty to focus on governance and curricular responsibilities. The faculty expressed support for the change in leadership and also praised the President and Provost as they perceive USU is being led with a spirit of transparency, accountability, data-driven student metrics and a shared commitment about student success and governance. Furthermore the changes in decision making and open-shared governance are attributed in large part to the primary Linden investor.

The staff expressed support and cited examples of President Cole's open-door approach and authenticity in leading USU. The Trustees (including the primary investor) and new administrative leadership has promoted sharing information with the core operational and administrative staff which has enabled input into the strategic planning process and operational enhancements. The change in culture and shared-governance is welcomed by the staff, and three of the more senior staff (~4+years tenure) indicated that stability and focus is apparent with emphasis on admissions, marketing, advising, financial aid administration, extended education and library operations. As the strategic plan continues to be implemented it is important to ensure that the shared governance model across faculty, staff and the Board are stable and supported into the future. Additionally as the BOM member composition is updated and USU reaches fiscal stability it will be important to review the interactions and philosophy with the Trustees to ensure decision making remains independent.

D. Educational Effectiveness

The team wanted to explore the processes for developing program learning outcomes and curriculum maps, the procedures for curriculum development and change, definitions of core faculty, the role of adjuncts, and the selection of new faculty. Samples of learning outcomes and curriculum maps were provided prior to the visit. Additionally, the team discussed these issues with the Provost and a group of faculty.

The Provost stated that the faculty are in control of the curriculum and faculty described a formal approval process that ends with a decision rendered by the Faculty Senate. A consultant has been working with faculty to develop assessment-of-learning plans. The

samples of learning outcomes and curriculum maps were well developed. Prior to the current administrative regime, faculty said that assessment was not done. Faculty described an environment in which rubrics are commonly used and that the role of each class in student learning is understood by faculty in the context of curriculum maps.

The change in ownership will not alter the institution's practices in educational effectiveness since fundamental changes have already taken place. Based on the information provided by the Provost and faculty, frameworks for ensuring educational effectiveness have been established. However, the history of faculty control over curriculum is short and the collection of evidence on assessment of learning has only recently begun. Future review by WASC teams will want to review the practices in curriculum development and examine the evidence on using assessment results to improve the educational programs offered to students. (CFR 2.3, 2.4, 2.5, 2.6, 2.7, 2.10)

E. Finances

The team wanted to discuss the current operating budget, projected future budgets, and the most recent balance sheet with senior financial administrators. (CFR 3.4, 3.6, 3.7, 3.8). The Chief Financial Officer provided a 3 year forecast from 2014-2017, with a forecasted deficit for the current operating year and a planned surplus in 2015 – 2017. It is apparent that USU financial leadership is focused on accurate enrollment projections and budgets that are thoughtfully informed with input from the academic deans and institutional research. The CFO indicated that monthly budget updates are provided to the deans. The academic and student service units are actively engaging currently enrolled students in an effort to enhance student success and retention. Furthermore there is evidence of increasing “word of mouth” student referrals that is positively impacting enrollment trends. The fiscal analysis and enrollment trends are readily shared with the academic deans. Also, the Provost indicated that course offerings now have a break even point of 4 students.

The budgeted student headcount data is compared with actual enrollments trends, historical attrition rates and current admissions data. The practice of forecasting and reconciliation has improved due to the Enterprise-wide Resource Planning implementations of Salesforce. The data for the reporting period ending in 2014 indicated an enrollment that exceeded budget by 14 students (386 vs. 400) and an actual surplus of \$490 over projection. The fiscal information suggests that over the 12 month period (March 2013 – March 2014) USU has a steadily increasing enrollment (+161), and management of costs indicate a focused effort to contain operational costs. Marketing and admissions salaries are over budget and academic and student services salaries/expenses are under. A significant fiscal obstacle is the long-term Cypress real estate lease (69,000 gsf/~\$778,000/yr) which is a USU obligation until 2016. A realtor has been enlisted to sublease the property and/or generate short-term rentals as a conference or training center.

The CEO and CFO meet weekly and the leadership team convenes twice per month to review fiscal projections vs. actual. A monthly budget update is provided to the Trustees. Weekly cash flows are prepared for the Board of Managers. Although there is evidence of: (1) improvements in the fiscal reporting capabilities, (2) realistic enrollment forecasting and (3) a focus on cost containment, USU continues to operate at a deficit. The Board and administrative leadership are attuned to the necessity to increase enrollments and contain costs. USU's administrative team is focused on growing enrollments through extended education, international enrollment and military. There is optimistic caution that USU can attain fiscal stability; however, the fall enrollment period will be a critical time to determine if USU is able to sustain its budget projections.

SECTION III – Findings and Recommendations

Commendations

The team commends the institution on a number of positive attributes and actions, including

- The institution has been responsive to the recommendations made by the Special Visit Team that visited the institution in April 2013.
- A new administrative team has been put in place that has demonstrated a commitment to process improvements and addressing urgent needs through problem solving. This is most clearly evidenced by the 2014-15 strategic plan.
- An engaged Board is being established that is involved in defining strategic goals, recruiting members that bring a needed expertise, and analyzing reports on financial and academic performance matters.
- More professional recruiting efforts have led to positive trends in enrollment growth.
- Faculty are more actively involved in governance.

Recommendations

The team forwards to the Structural Change Committee a positive recommendation on the proposed change in ownership.

The team further recommends that:

- the institution continues to analyze enrollment trends, both overall and by program, and to monitor the impact of growth on the composition of the student body. (CFR 3.4, 3.7)
- the institution continues to assess the effectiveness of the newly-installed enterprise systems, including Salesforce, CampusVue and Pearson in enhancing quality academic and student services. (CFR 3.5, 3.7)
- the institution continues to build on the progress made on the objectives outlined in the 2014-15 strategic plan. (CFR 4.6)
- the Board of Trustees continue to develop its culture of leadership and governance (CFR 3.6, 3.9)

- the Faculty build on the initial efforts to collect data to assess student learning outcomes (CFR 2.3, 2.4, 2.5, 2.6, 2.7)
- the tuition, enrollment forecasts and cost containment continue to be monitored for accuracy and fiscal stability through 2014. Updated budget forecasts for 2015 – 2017 should be obtained as part of USU's Offsite Review scheduled for fall 2014. (CFR 3.4, 4.7).