REPORT OF THE WSCUC TEAM
In response to a required Special Visit-Show Cause

To Phillips Graduate University
April 12 and 13, 2018

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Overview and Context

Description of Institution and Visit

Phillips Graduate University (PGU) is an independent, private, non-profit institution. Its students are typically commuter graduate students enrolled in human services related academic programs such as Master's degrees in Marriage and Family Therapy, Marriage and Family Art Therapy, School Counseling, School Psychology, and a doctoral program in Organizational Management and Consulting. The university was founded in 1971 with its seminal program in Marriage and Family Therapy, as the Phillips Graduate Institute, and has been accredited since June 1983.

Accreditation History

Key to understanding the issues at hand for this Special Visit and Show Cause order is insight into the accreditation history of the university. In the time since Fall 2003, PGU has required more than seven special visits from WSCUC teams for additional evaluation and has be placed on probation or sanctions for a number of those related visits. Consistent themes of concerns in leadership, governance, and financial stability can be seen across the various team reports and Commission findings. The current status of "Accredited Show Cause" has been in effect since April 2017. This visit was a result of findings from that reaffirmation process and in response to a collection of formal complaints filed with WSCUC in the fall of 2017. Specific issues to be address in this visit include Standards 1) Defining Institutional Purposes and Ensuring Educational Objectives; 3) Developing and Applying Resources and Organizational Structures to Ensure Quality and Sustainability; and, 4) Creating an Organization Committed to Quality Assurance, Institutional Learning, and Improvement.

Description of the Team Review Process

The team began to receive access to materials in late 2017 through the WSCUC provided file share service. The deep evaluation of materials began immediately following when three of the team members coordinated a meeting at the training session for Special Visit teams. During that meeting in late January 2018, those present began to develop specific lines of inquiry including additional materials that would be required by the university and from WSCUC archives.

Immediately following the meeting at the WSCUC training, the team was provided with a notice of "violation of show cause" that was presented to the PGU Board Chair in November 2017. This letter specifically addressed concerns regarding significant transitions in the Board membership, questions of conflict of interest amongst new Board members, an intention to pursue a change of status for the institution from private, non-profit to a for-profit B Corp, and Board interference in management and operations of the institution. This information reinforced areas of inquiry related to the Board membership and practices.

On February 2, a comprehensive list of materials related to PGU's financial position was requested by the team. The request included enrollment history and projections; revenues for the past five years; operating budgets and actuals including documentation related to budget cuts and rationale for those changes; future budget modeling; capital budget documentation, summary of investments, audited financial statements and Form 990s dating back to FY2013 including statements of conflict of interest, management findings; documentation related to the A-133 audits and compliance reports; Federal Financial Aid Responsibility Composite Scores and Federal Loan Default Rates; copies of all facility lease/mortgage documents, agreements with significant service providers and vendors; details on the endowment and other investments; summary of any current litigation and current status; and contact information for current and past

audit partners. A number of the requested materials, most of which were in draft form, were provided by the institutions ALO in early March but many of the documents were incomplete or not provided. Additional materials were provided throughout the team's time on campus but many of the financial documents were simply not available or incomplete. The rationale from the institution was that a significant staff change in March 2017, as a result of the termination of the Inspiras partnership, resulted in missing or unavailable documentation. While the team did discover evidence of that turn-over and questionable behavior by former staff (the prior CFO kept all financial documentation on a hard drive that operated outside of the institution's network and took said hard drive with her upon departure) through various interviews, a review of past team experiences documented in reports (and experienced by one team member who has visited PGU repeatedly over the years) points to a long-term history of the institution's inability to complete even the most basic requirements of audited financials and reporting in a timely fashion.

In the team's conference call, lines of inquiry were refined to include the Standards called into question by the series of complaints filed with WSCUC in fall 2017 and the specific Standards identified in the Commission's findings of August 2017, many of which overlapped. A pre-visit call was scheduled with the President/VPAA/ALO, Randy Christopher, on February 23rd.

During the on-site visit, conducted by the team on April 12 and 13, the team focused on governance and finance issues specifically. Interviews were conducted with various members of the campus constituency including faculty, students, staff, and all members of the Board. In addition, the team regularly reviewed messages sent to the confidential email provided by WSCUC. Throughout the visit, the message was clear - "we've been through a very difficult

time, but things are different with this leadership and Board." We found the faculty, staff, and students to be fully committed to the university and its programs. They were forthcoming with information and were very honest about the challenges faced by the institution in 2017.

Quality of the Special Visit Report and Supporting Evidence

As experienced by the Reaffirmation visit team in March 2017, the Special Visit team found the institutional report to be adequate in addressing the issues at hand. The evidence presented in the report appeared to be clearly documented in support of the institutions position and preparation for this visit. As the team began to request additional materials, prior to the visit and during, it was clear the institution has had extreme difficulty in records and document management. The team found that many materials were in draft form and were being developed while the team was on-site. In some cases, missing documentation was material to the questions at hand. For example, as the team explored the issue of apparent conflicts of interest among and across members of the Board, including those who had obvious financial relationships with the university, minutes of Board meetings demonstrating abstentions on specific Board votes related to those financial interests or Conflict of Interest statements were absent. The team found this very troubling and will address issues such as these in the deeper analysis of the issues later in this report.

Team Analysis of the Issues

The issues identified for exploration by this visiting team are very specific and related to clearly identified Standards and CFRs. To organize the team's findings in each area of concern, this report is organized by Standard and CFR, with evidence identified in the narrative, and in some cases, included in an appendix at this end of this report.

Standard 1: Defining Institutional Purposes and Ensuring Educational Objectives

CFR 1.5 - Education as primary purpose; autonomy from external entities

Amidst instability in the upper administration and Board at PGU, the institution has kept education as its primary focus, and the academic programs have operated with appropriate autonomy. Currently, the Board has introduced budgetary constraints with clear and important implications for academic programs, but these have not directly influenced the programs. Many faculty and staff expressed confidence that the current Board, with input from the Interim CEO, will continue to support the institution's focus and refrain from inappropriate interference. However, a minority expressed apprehension about the motivations of the current Board and described themselves as taking a wait-and-see attitude. Their concerns focused on three issues: the connections many new Board members have or have had with Mount Sierra College, the proposal to double enrollment to address financial issues, and the proposal to enroll large numbers of international students, also for financial reasons. The team judged PGU to be in compliance with CFR 1.5.

CFR 1.6 – Truthful representation to students/public; fair and equitable policies; timely completion

This CFR was called into question as a result of a formal complaint submitted in Fall 2017. A review of the institutional response resulted in more of a "he said, she said" scenario rather that a real resolution of any concerns. Current practices for information sharing on campus are much improved from prior administrations and while some expressed a level of cynicism, others on campus are quite relieved in the improved expressions of institutional practice and decision making. It must be noted however, the overriding concerns about potential conflicts of interest and lack of independence of the Board can, and will, substantially undermine

any progress made on this front. As a result, the team find PGU in marginal compliance with CFR 1.6.

CFR 1.7 - Operational integrity; sound business practices; timely and fair responses to complaints; evaluation of institutional performance

PGU has had a long-standing volatility in its leadership. Based on materials provided in the institutional report (p. 4), no less than five individuals have been named CEO or acting CEO since 2009. That upheaval in leadership can only lead to questions of operational integrity and sound business practices for the organization's operations. Indeed, as evidenced in our review of documentation, it was clear that there are deficits in a number of areas including a lack of appropriate Board documentation where a number of meeting minutes are incomplete or missing. For example, the team sought to review the minutes from Board meetings where the then Board members (prior to September 2017) resigned their positions and the current Board members were nominated and appointed to their current positions. Board minutes for September 23, 2017, noted that the resignations of chairman Eric Moore and member Katrice Moore were accepted. However, those minutes only note the absence of member Faye Montgomery. There is no mention of who was present or the vote count. Those same minutes indicate the appointment of the current Board chair, Eric Tao, to his role of chair. There is no documentation related to Dr. Tao's initial appointment to the Board. In minutes from July 22, 2017, he is introduced as a Chinese investor from Mt. Sierra College "who would like to partner and donate." There is no further mention of Dr. Tao in the available minutes until his appointment to Chair on September 23, 2017. With the missing Board minutes or lack of detail in those that were made available to the team, it is very difficult to follow the evidence of an appropriate transition from the early 2017 Board to the current Board.

As mentioned in the prior section, additional evidence of the institution's challenge to maintain operational integrity and sound business practices was seen in the inability to provide even basic financial documentation. The audit process, which is hardly a surprise request for the institution, based on the interview with the representative from the audit firm, began just weeks prior to the team's time on campus resulting in an incomplete audit for 2017 for the team to review. PGU's history with late or absent financial data for team visits or submission to the WSCUC annual report all inhibit the university's ability to fully understand its financial position, institutional performance, and future strategy.

In the materials provided from the reaffirmation visit, and supported by returning team member, Dr. Robert Cooper, the Special Visit team did not explore any questions related to educational effectiveness. The report from the March 2017 visit indicated sound practices and evidence of that effectiveness, however, it did not escape the observation of this team that our findings related to CFR 1.7 called into question the institution's ability to maintain its quality educational experience. Therefore, the team believes PGU is out of compliance with CFR 1.7.

CFR 1.8 - Honest, open communication with WSCUC including notification of material matters; implementation of WSCUC policies

In recent months, it is apparent the ALO takes his responsibility to inform and involve WSCUC in the status of the institution very seriously. As recent changes in leadership and the Board have occurred, he has been timely in his communications to the WSCUC liaison. Responses to the formal complaints submitted to WSCUC were timely and detailed, included specific evidence to support the institutional position.

Unfortunately, implementation of WSCUC policies has continued to be a challenge for the institution. The institution has operated since early 2017 with an interim CEO/CAO thus calling into question the ability for the current appointment to serve as a full-time chief executive

(CFR 3.8). Based on documentation provided by the Board, it appears there will not be an appointment to the full-time CEO position until July 2019.[1]

In addition, the Board for PGU has a demonstrated a number of problematic behaviors since mid-2017 including missing and incomplete Board documentation, lack of Conflict of Interest statements from all Board members except Chair Tao and intertwined financial interests to the institution and to one another (please see Appendix 1) leading the visiting team to question the Boards independence (CFR 3.9). For example, there is no formal Board action, either documented in minutes or a Board resolution, to document the termination of Ms. Kaucher or the appointment of Mr. Christopher as interim President/CAO. The team was provided with a filing to the California Secretary of State, dated January 29, 2018, that identifies Mr. Christopher as the CEO of the institution and yet, Dr. Tao provided signatory authority on the settlement agreement made with Inspiras on March 7, 2018. The team interprets this behavior to be indicative of overreaching of the Board into the standard operational functions of the institution.

Another example of this overreaching was identified in the meeting with the academic program chairs. In explaining the practice of weekly chair/director meetings with the CEO/CAO, it was mentioned that Mr. Moloyan, member of the Board and institutional general counsel, regularly attends to "listen" on behalf of the Board. While appreciated by faculty leaders who felt a vast void between their work and Board in prior years, this behavior was concerning, and highly unusual, for members of the visiting team.

As the visiting team explored the financial position of the institution and its plan to strengthen its resources, a number of sources identified significant challenges with the current

[1] Presidential Search Committee (PSC) timeline provided by Director Sanchez during the Board interview with the visiting team.

ERP resulting in incomplete and incorrect enrollment and financial reporting. Most, if all reports, are manually produced at PGU, resulting in excessive resource drains and opportunities for human error, as identified by the current CFO. Today's university is highly dependent on accurate data reporting, particularly related to enrollment and the financial position. WSCUC has set an expectation of adequate technology to support the operational and educational activities of the institutions (CFR 3.5) and the current solution at PGU is woefully out of date. Costs for needed upgrades to both the hardware and software systems do not appear to be adequately addressed in the budget for the current and upcoming years and at the admission of the CFO, the staff on site is ill equipped to do the necessary work to bring the ERP suite into a current status, again indicating the need for additional expense.

As with the issues related to CFR 1.7, the team questions the impact of these issues, particularly as it relates to the ERP system, on the longevity of the educational effectiveness of the institution. The team believes PGU to be out of compliance with CFR 1.8.

Standard 3: Developing and Applying Resources and Organizational Structures to Ensure Quality and Sustainability

CFR 3.1 – Sufficient, qualified, and diverse faculty and staff to support programs and operations

As noted throughout this report, and in prior team reports, by all accounts the faculty are well prepared to support the institution's curriculum and assessment strategies. The concern from this team was a repeated lack of confidence in the sufficiency and expertise of various administrative roles on campus. Specifically, the institution has left a number of key roles in advancement, student affairs, and enrollment vacant as a way to deflect the financial concerns. The current appointment of a single person to fill the combined roles of CEO/CAO/ALO is particularly concerning as this represents the highest levels of leadership for the institution.

Even at a small university the tasks at hand are seemingly too large for a single person to handle especially, when by his own admission, that person feel underqualified for the roles. Efforts are in place for a new CEO hire but based on the timeline shared by the Board, will not be effective until late 2019. As a result, the team finds PGU to be out of compliance on CFR 3.1.

CFR 3.4 - Financial stability, clean audits, sufficient resources; realistic plans for any deficits; integrated budgeting; enrollment management; diversified revenue sources

PGU's financial health continues to be fragile and its long-term financial stability is a concern. The institution is tuition dependent with approximately 97% of its total revenue coming from net tuition and fees. For the period of FY 2013 through FY 2016, annual net tuition and fee revenue has been basically flat, averaging $5.6 million. Total revenue during this period has declined from $6.7 million in FY 2013 to $6.1 million in FY 2016. Total revenue for FY 2017 is difficult to determine because the annual independent financial audit has not yet been completed and the institution has experienced serious issues with its accounting and financial reporting systems. However, it appears that the institution will have total revenue of approximately $5.1 million. It is also difficult to forecast total revenue for year–end FY 2018 due to the accounting and financial reporting system problems, as previously mentioned. Most of the financial information provided to the team for the current year was for the period of January through June 2018. A comprehensive, accurate forecast for the fiscal year was not available at the time of the visit. Financial and budget forecasts for FY 2018/2019 and beyond are suspect due to the fact that the institution does not have a complete and accurate historical baseline from which to project forward, although the institution's finance staff is diligently working to address these budgeting and accounting issues.

From an overall financial perspective, the institution's total net assets have been flat over the period of FY 2013 through FY 2016, averaging at approximately $716,000. The audited

financial statements for FY 2017 are not yet available but based on the preliminary information shared with the team, total net assets at year end will be negative, as much as ($870,000). The year-to-year difference is driven primarily by declines in total revenues, including the impact of third-party revenue sharing. Total expenses increased somewhat as well.

The preliminary USDE Financial Responsibility Composite Score for the University for FY 2017 is 1.3. The institution's preliminary composite score falls below the 1.5 composite score required by the Department of Education. The USDE Financial Responsibility Composite Score profile for PGU in recent years is as follows:

FY 2013	1.4
FY 2014	0.1
FY 2015	1.5
FY 2016	1.3
FY 2017 (preliminary)	1.3

The score of 1.3 for FY 2017 is based on data from the draft financial audit. However, an independent calculation by the team suggests the composite score will be -1.0. A final score should be available once the annual independent financial audit is completed.

The USDE Financial Responsibility Composite Score is a composite of three ratios derived from an institution's audit financial statements. The three ratios are a primary reserve ratio, equity ratio, and a net income ratio. The USDE Financial Responsibility Composite Score is used to determine the overall relative financial health of the institutions along a scale from negative 1.0 to positive 3.0. A score greater than or equal to 1.5 indicates an institution is considered financially responsible. An institution with a score of less than 1.5 but greater than or equal to 1.0 is considered financially responsible but requires additional oversight and are subject by the Department of Education to cash monitoring and other participation requirements.

The Preliminary Reserve Ratio for PGU for FY 2017 is estimated at -0.16. The calculation for FY 2017 is based on preliminary information provided by the institution and may change once the independent financial audit is completed. The Primary Reserve Ratio profile for the institution is as follows:

FY 2013	0.13
FY 2014	0.04
FY2015	0.09
FY 2016	0.11
FY 2017 (preliminary)	-0.16

The Primary Reserve Ratio measures the financial strength of an institution by comparing expendable net assets to total expenses. Expendable net assets represent those assets that an institution can access relatively quickly and spend to satisfy its debt obligations. The ratio is considered a good snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations. Trend analysis indicates whether an institution has increased its net worth in proportion to the rate of growth in its operating size. A Preliminary Reserve Ratio of 0.40X or better is considered advisable to give an institution the flexibility to transform the enterprise. If an institution's ratio is below .15, which would represent funds for about two months of operations, then the institution will potentially end up borrowing short term to make payments and the institution does not likely have the resources it needs to maintain its operations, including technology and physical plant, and invest in its future.

As shown above, the Preliminary Reserve Ratio for PGU has been below 0.15 for the past four years (FY 2013 – FY 2016) and is preliminary projected to be -0.16 for FY 2017. As indicated, this may change once the audited financial statements for FY 2017 are completed.

This ratio analysis indicates the institution's financial position remains fragile and that the institution has little flexibility in navigating its current financial difficulties.

The Net Income Ratio for PGU for FY 2017 is estimated to be negative based on the preliminary financial statements. Similar to the Preliminary Reserve Ratio, the calculation is based on preliminary information provided by the institution and may change once the independent financial audit is completed.

The Net Income Ratio for the institution has varied considerable over the past four years (FY 2013 – FY 2016). It has been as high as 6.2% in FY 2015 and as low as -9.1% in FY 2014. The Net Income Ratio measures if an institution's general operations are positive or negative and by how much. In business terms, the ratio indicates whether an institution is making money or losing it in its basic day-to-day function of educating students. A high ratio indicates the efficient management of the operations affairs of the organization. A net income ratio of 2% to 4% is considered necessary.

As indicated, the Net Income Ratio for PGU has fluctuated from year-to-year, but in three of the past four years (FY 2013 – FY 2016), the ratio has been below the 2% to 4% range and is forecasted to be significantly below this range in FY 2017. This ratio analysis suggests that the institution is not generating sufficient resources to effectively support operations.

PGU has had a long history of ineffective financial management and poor financial performance. As the ratio analysis suggests, weak performance results overtime have serious implications on the institution's financial stability and on its ability to generate the resources necessary to invest in its future.

PGU has prepared audited annual financial statements. The team reviewed the audits for the past four years (FY 2013 - FY 2016), all were clean audits. As previously mentioned, the

institution has not completed the independent financial audit process for FY 2017, so the team was unable to review audit results during its visit, although the team was provided with a preliminary, work-in-process copy of the financial statements. Engagement by the institution of a new accounting firm to conduct the PGU audit for FY 2017 did not occur until February 27, 2018, only a few weeks prior to the team's visit. Management explained that the delay in starting the audit was due preliminary to difficulties with University's accounting and financial reporting system and the inability to conveniently produce the required financial data.

The team met with representatives of the accounting firm conducting the FY 2017 audit to discuss progress to date. During the meeting, the auditors indicated that they had not yet completed their Going Concern evaluation, which will assess any uncertainties regarding the ability of the institution to continue normal business operations into the future. Although the auditors indicated that they had not reached any conclusions, they did report, however that early concerns in regards to the Going Concern evaluation had been identified.

As indicated, the institution was not able to provide the team with complete and accurate financial information due to difficulties the institution has experienced with its accounting and financial systems and the impact of leadership changes in accounting and finance organization. As a result, determining whether the institution experienced a deficit in the 2017 fiscal year was problematic. However, based on the information available, it does appear that PGU will have a deficit in FY 2017 in the $1.7 million range. Given the size of the University's total budget, this is fairly significant deficit. The institution's financial position for FY 2018 was also difficult to understand given the problems experienced with its reporting systems. From a budget planning perspective, the institution has focused primarily on the period of January through June 2018. Management indicated that they felt that they had a good understanding of revenues and

expenses for the remainder of the fiscal year but forecasting bottom-line financial performance at year-end was a challenge. None-the-less, the CFO indicated that he thought that the institution would achieve a minimum year-end operating surplus of $46,000.

The budget planning process at PGU has been in disarray. This is the result of management and leadership issues, as well as problems with the institution's accounting and financial reporting systems. The Special Visit Report prepared by PGU indicated that the Board of Trustees had not approve a budget for the FY 2018 year. The report also indicated that the Board did not approved a budget for FY 2017. At the time of the team visit, a budget for a partial fiscal year (January – June 2018) had been prepared and approved by the Board. As indicated, it is unclear at this time as to how the institution will perform budget-wise for the full fiscal year. The Interim President and new CFO have worked to develop and implement a budget process for the institution, including the establishment of budgets at the department level. Budget management procedures have been implemented and monthly budget performance reports for budget managers are starting to be generated. Although this is still a relatively new process, several department-level budget managers expressed enthusiasm regarding the progress made to date.

The CFO indicated that the institution has started the process for developing the budget for FY 2018/2019. He indicated that the biggest budget challenge facing the institution will be the generation of revenue. He predicted that it would be at least a year and a half before the institution's budget situation improves significantly.

For the period of 2012 through 2015, enrollments at the institution were fairly flat, ranging from 273 FTE's to 294 FTE's. For 2016, enrollments increased to 350 FTE's, an increase of approximately 19% from the prior year. Enrollments increased again in 2017 to 363

FTE, an increase of 3.7% over the previous year. At the time of the team's visit, it was not clear as to the institution's final FTE count for the current fiscal year. The institution is preparing its enrollment forecast for the 2018/2019 fiscal year. It is unclear from the preliminary information made available to the team as to how well the institution will perform relative to new enrollments for the coming year.

Diversification of revenue sources is a significant issue for the PGU. As indicated previously, approximately 97% of its revenue comes from net tuition and fees. The institution generates some additional revenue from clinical fees, but that source, net of discounts, has declined over the past few years. Revenues from contributions and grants appear to have declined in the past two to three years as well. The institution has not established a tradition of alumni giving and it does not have an active fundraising operation in place. As of the site visit, PGU was not in compliance with CRF 3.4.

CFR 3.5 – Information and technology sufficient in scope, quality, currency, and kind to support its academic offerings and research and scholarship of its faculty, staff, and students.

The faculty appear to be relatively satisfied with the quality of the information systems and technology provided to support academic programs, research and scholarships. PGU does not utilize a learning management system. As previously mentioned, the team has grave concerns about the status of the information technology stack, specifically the student information system. Its lack of currency in the underlying operational system and self-identified lack of internal expertise to manage any forthcoming upgrades, is severely impacting the institutions ability to prepare even the most basic of reports for financial and enrollment operations. Much of the information provided to the team was manually generated through the use of a variety of Excel spreadsheets. PGU is exceptionally vulnerable in this area and as such, the team find the institution out of compliance with CFR 3.5.

CFR 3.6 - Leadership operations with integrity, high performance, responsibility, and accountability

PGU has suffered from leadership problems for years. The result has been turnover at the CEO level (see Institutional Report p. 4) and a new Board replacing the former Board in late 2017. The problems with Inspiras appear to be the result of non-payment for contracted services. With the settlement now executed GPU has the burden of paying off approximately $1.85M while paying 12% interest compounded monthly. An initial payment of $400,000 was made on April 1, 2018. The remainder is to be paid in 48 monthly installments. These are resources the institution desperately needs to fund their current needs. The leaders who reneged on the Inspiras payments have left the institution.

The current Board has had to be assembled on a tight timeline given the WASC Show Cause order. Dr. Tao has recruited a number of the Board members, many of them having an affiliation with Mt. Sierra College where he was the president (until just recently). For example, Rhea Sanchez is the Director of Institutional Effectiveness at Mt. Sierra. Krikor Moloyan taught at Mt. Sierra as an adjunct faculty member. He is also the PGU's legal counsel. This results in a Board with members who are strongly influenced by the Board chair. This pattern led the team to see if there were other connections between other Board members. Daniel Yao, a PGU Board member, is part of the leadership team (administration and/ or ownership) at California University of Management and Technology (CALMAT). Eric Tao is listed on the CALMAT website as a member of the organization's Advisory Board and also shown as a faculty member. CALMAT is a subsidiary of Zeuss Group, Inc. Part of the recruitment plan for PGU is to attract international students. On February 27, 2018 PGU signed an agreement with Community Business College, Inc. (CBC) to do the recruiting. In the meeting with the team and the Board of Trustees Daniel Yao indicated that he would realize financial gain if the recruitment effort

succeeded. (For a detailed understanding of the connections between and amongst the Board members, please see Appendix I).

In an effort to ensure our lines of inquiry and research were accurate and appropriate, the WSCUC liaison engaged with outside legal counsel to review and provide an opinion on our findings which were that the Board is most likely out of compliance with the CFRs as there is a demonstration of having "interests that influence their impartial decision making, create multiple and potentially conflicting relationships, or result in competing loyalties"; having financial interests in PGU; and/or not being free from undue influences.

CFR 3.6 focuses on the integrity, performance, responsibility and accountability of the leadership. Since the beginning of 2017 PGU has had 3 CEO's. The Inspiras arrangement has been problematic for PGU. The current administration is perceived as a significant improvement, but the team has concerns over the non-independence and conflicts of interest operating in the Board. We do not believe PGU is currently meeting CFR 3.6. In addition, they did not appear to be aware of the problems the current situation created for governance of PGU. Given that PGU has been seeking contributions (which may be investments) and considering whether to convert to a B-Corp, the lack of independence and conflicts of interest in the Board members PGU is not well served by this situation.

CFR 3.7 - Clear, consistent decision-making structures and processes; priority to sustain institutional capacity and educational effectiveness

Boards typically focus on policy and stay out of operations. Operations are the purview of the CEO. That does not appear to be the case at PGU. The team received reports that one of the Board members regularly attended meeting of the academic program chairs. That individual may have been there in the role of university counsel because he also holds that role. That is a problem we will focus on elsewhere. For now, the point is that Board member(s) are sometimes

in the middle of operations. That practice can undermine the authority of senior management as faculty and staff are not sure who they should be responding to. It may be worth noting that this is the opposite problem from the former Board where lack of engagement with the institution was a concern.

The Board has improved its access to faculty and students by creating a non-voting representative for each constituency on the Board. Unfortunately, current California law doesn't permit this, and adjustments will need to be made. However, the inclusion of these groups is a welcome development.

The general lack of attention fundamental questions of record keeping, appropriate leadership, and apparent conflicts of interest leads the team to conclude that PGU is not in compliance with CFR 3.7.

CFR 3.8 - Full-time CEO and full-time CFO; sufficient qualified administrators

Currently, PGU has an interim CEO and a full-time CFO. The interim CEO was appointed on November 8 after the prior CEO departed. He also serves as the Provost and as the Accreditation Liaison Officer. Although current faculty and staff express great confidence in the CEO, his Interim status continues the uncertainty regarding leadership that has characterized PGU for the last two years. The Board has outlined a plan for recruiting a permanent CEO, including appointing a recruitment committee with appropriate constituencies represented. The actual search would not begin until late fall 2018.

The review team is concerned that combining the positions of CEO and Provost into a single person is not a sustainable long-term solution. Nonetheless, such multitasking appears to be a significant element in PGU's attempt to deal with their financial difficulties, as seen in its having allowed several senior positions to go unfilled to save substantially on salaries. If an outside CEO is recruited, it is unlikely that this person could effectively continue this

multitasking strategy. Perhaps the current interim CEO would fill the Provost position; if not, a search for a Provost would need to be initiated after hiring the CEO. The downside would be putting off still longer stable leadership in the Provost position.

The new CFO was hired November 17, 2017, after a gap left when PGU separated from Inspiras, which had been providing CFO services. The CFO appears highly competent and motivated but is hampered by a history of chaotic recordkeeping and outdated software. In his short time at PGU, he has made substantial progress and appears more than capable of returning the order needed to manage and guide the institution. The chairs of the degree programs were thrilled that they now have a budget with which they can work. One has received a monthly report that projects annual expenditures and monthly variances, and the others hope to receive similar reports soon. PGU has lacked such standard tools and the new CFO is bringing them online as quickly as he can.

For some long-term chairs and one very recently appointed chair, the governance of the degree programs continues to be strength of PGU. Other important administrative roles have seen more turnovers, and the strategy of leaving positions unfilled to reduce the salary budget is an impediment to rapid resolution. Because of financial implications, enrollment management and advancement/fundraising would seem to be very high priorities. As of the site visit PGU was not in compliance with CRF 3.8.

CFR 3.9 - Independent governing board with appropriate oversight, including hiring and evaluating CEO

The team reviewed documents, including the PGU Bylaws, minutes of Board meetings, resumes of Board members, and emails to the team. The team also met with the Board and met individually with the Board Chair and the CEO. In addition, questions about Board governance

were raised in meetings with department chairs, faculty representatives, student representatives, and staff.

On the one hand, a picture of Board engagement, openness, and transparency emerged across these interviews. The Board has only one Board member remaining from the Board of a year ago, when the accreditation visit occurred; this was a very positive change from a year ago.

However, the documents and meetings with the Board and Board chair revealed less positive qualities. Minutes of Board meetings were informal in tone and lacked details needed to understand how decisions were made or when particular Board members recused themselves because of conflicts of interest. Minutes of some meetings did not record those members who were present. Minutes of some meetings were missing; when the team asked about them, those minutes that were "discovered" were so brief and incomplete that they raised concerns about whether or not formal minutes had been taken at the time of the meetings.

The team pursued the minutes in part because we were trying to understand the transition in the membership of the Board. There were two letters of resignation of former Board members and a formal unanimous vote appointing the new Board Chair, although there is no record of which Board members participated in the vote. There is no formal record of when the current Board members, including the Chair, became Board members. After the team visit, we received a copy of an email from Ellie Kaucher indicating that Eric Tao, Krikor Moloyan, and Rhea Sanchez were elected as Board members in a conference call meeting on August 28, 2017.

Conflict of interest is addressed in the Bylaws, and the Board has a conflict of interest policy. The Bylaws state that: "voting members of the Board shall consist of individuals who have not contractual, employment, familial or financial interest in the Corporation… (Section 7.2.1)". However, Section 10.1 also states that: "The corporation shall not be party to any

contract or transaction with any directors or officers of the Corporation unless such contract or transaction is in compliance with the Corporation's Conflict of Interest Policy." This policy describes specific processes and documentation to allow a member with a conflict of interest to be a member of the Board. Two current members, and perhaps three, have conflict of interests with respect to contractual, employment, or financial interest in the corporation (see Appendix 1), but apparently the conflict of interest procedures have not been followed, and the required documentation in board minutes is not available. This leads the team to find that PGU is out of compliance with CRF 3.9.

Standard 4: Creating an Organization Committed to Quality Assurance, Institutional Learning, and Improvement

CFR 4.5 - Appropriate stakeholders involved in regular assessment of institutional effectiveness

In the accreditation review of 2017, the team found that the degree programs at PGU had made great progress in assessment. The chairs and faculty interviewed in the current visit reported that progress has been maintained and results continue to guide the evolution of degree programs. However, they also reported that staffing limitations caused by financial constraints made it difficult to implement many of the changes they would like to make. Thus, curricular changes that have been instituted are primarily the result of changes in licensure requirements. That leads to team to conclude that PGU is marginally compliant with CFR 4.5.

CFR 4.6 - Reflection and planning with multiple constituents; strategic plans align with purposes; address key priorities and future directions; plans are monitored and revised as required

In the chaos that has plagued PGU in recent years, normal planning, monitoring, and revision of strategic plans have been absent. Although it may seem unfair to hold the current upper administration and Board responsible for this failure because they have been in place for

such a short time, this is a long-term problem at PGU, and the current group are only the latest to be visited when the objective view is not positive.

Most faculty and staff seem to believe it is all going to be better this time. The openness of the Board chair, the inclusion of a faculty and a student (and soon a staff member) as non-voting Board members (although by California law, non-voting Board membership on non-profit public benefit corporations is not permitted), and the engagement of Board members in planning activities on campus all support this positive view. However, there is no agreed-upon plan directing and guiding activities going forward.

Faculty and staff also seem to believe PGU can maintain its strengths and traditions, although the Board seems to recognize that more substantial changes will be required for PGU's survival. There appears to be no recognition of the discrepancy of these two views, nor of the need to design a process to reconcile them. A recent example highlights what appears be a failure of the Board to seek to understand and respond to views of the faculty. A Board meeting was scheduled to consider the 2018/2019 budget at the time of spring break. The faculty and student "members" of the Board requested that it be rescheduled so they could attend, but their request was denied. In addition, the draft budget and other documentation for the meeting were not provided to the absent members.

In sum, although recent changes point to signs of more openness to develop an appropriate process, at the present time no effective planning process that integrates multiple constituents and results into a strategic plan that can be monitored and further developed. Therefore, the team concludes that PGU is not complying with CFR 4.6.

Findings, Commendations, and Recommendations

Broad and Overarching Issues

The visiting team concurs with the findings of teams prior, as documented in Commission letters of notice, Phillips Graduate University is plagued with a history of leadership, governance, and financial instability. The continued lack of compliance with the Standards and CFRs identified in this report gives great concern to the visiting team. And yet, despite that concern the team found evidence of improved morale and communication in a community that is deeply committed to the success of the university.

Areas of Strength of the Institution

The team evidenced the following areas of strength, demonstrated primarily through interview while on-site:

- Improved transparency across constituencies. To a fault, faculty, staff and students, praised the current leadership, including the Board, for being more inclusive in matters of morale and governance. This includes the recent additions to the governance structures for students and a soon to be added staff council.
- Quality of education being delivered. As evidenced in the team findings in March 2017, and further supported through current interviews and the confidential emails, PGU continues to deliver a quality educational experience.
- Despite extended time since pay raises and a decrease in available employee benefits, the faculty and staff express deep and abiding loyalty to the institution.

Areas of Recommendation for the Institution

The review of documentation provided by the institution, statements provided in the confidential email, and information gleaned through interviews, particularly with members of the Board of Director, has the team making the following observations and recommendations:

- There is a lack of transparency with WSCUC and the internal constituencies as evidenced by a lack of full understanding and documentation on key issues such as the current appointment of the Board and the process to formalize the CEO search and role. The team recommends the Board immediately begin standardized practices for Board documentation including comprehensive minutes that indicate those present, patterns of voting and abstentions in areas of conflict, resolution documentation for key Board decisions, and updated Conflict of Interest disclosure forms for each of the members of the Board (CFRs 1.7, 1.8, 3.6, 3.7, 3.9).
- Based on the evidence presented the team had no option but to question the independence of the Board. During the visit, there were a number of questions related to apparent conflicts of interest, including opportunities for individual Board members to gain financial advantage from institutional agreements, and pervasive non-compliance with documentation related to the conflict of interest policy set by the Board (CFRs 1.6, 1.7, 1.8, 3.6, 3.9)
- The lack of a full-time CEO is an ongoing concern. This needs to be a priority and one that demonstrates more urgency than the current timeline which identifies a new full-time CEO for July 2019 (CFR 3.8).
- There is a need to identify a CAO for the university. In the structure practiced since early 2017, the position shared with the CEO role does not lend itself to fulfilling the required

full-time CEO (CFR 3.8). In addition, by the admission of the current CEO/CAO, he feels he is underqualified for the CAO role (CFR 3.1).

- In general, there is a lack of administrative capacity in IT, Student Affairs/Services, Development, all key roles and departments that are necessary to ensure the success of the institution (CFR 3.1).
- Financial sustainability - there is no indication that they can move beyond "stopping the bleeding" as their budget projections are only developed for 6 month increments and the proposed 3% contingency seems inadequate to manage the numerous and extensive expenses facing the institution including the settlement with Inspiras, pending settlements with various forms of legal counsel, and pending claims from prior staff (CFRs 3.4, 3.5, 3.7).
- Fundamental to the team's concern is an enrollment management plan that does not seem sufficient to support the need of increased revenue to contribute to the greater financial sustainability. This is evidenced by a general lack of a specific strategy (just take "show cause off of our website and it will resolve itself" was a refrain the team heard more than once) or investment (projected $120K for marketing before making investment in IT infrastructure and Jenzabar – the institutional ERP technology suite) (CFRs 3.4, 3.5, 3.7).

Overall, the team observed a well-intentioned faculty and staff at an institution that has a level of dysfunction that is pervasive and long-standing to the extent that there appears to be a near impossibility for the turn-around. The issues faced by PGU are continual, some dating as many as 10 years ago, and so ingrained in the operational culture and financial reality that the team does not see any immediate resolution to the lack of compliance to the WSCUC Standards.

Appendix I:

Based on web research conducted by the various members of the team, the following summation of Board relationships has been provided. It should be noted that some data found in early 2018 has been changed or updated in the intervening months:
Current members of the PGU Board of Directors:

- **Eric Y. Tao, PhD** (Board Chair), President and Member of the Board, Mt. Sierra College.
    - Located in Monrovia, Mt. Sierra College, a nationally accredited institution, prepares students for careers in media arts, business and information technology. Undergraduate degree programs.
    - Note: Per an internet search, Dr. Tao's title at Mt. Sierra College is listed differently on various websites. In some cases, he is shown as "Consulting President" and in others he is shown as "Consultant to the Board." During interviews with the visiting team, Dr. Tao acknowledge that he has recently (within the week of the team visit) resigned his role at Mt. Sierra College to return to his faculty position at California State University-Monterey Bay.
- **Krikor Moloyan, Esq**., Moloyan Law
    - Moloyan Law: Per firm's website, legal experience includes business formation, commercial disputes, immigration consequences, criminal convictions, appellate advocacy, and non-profit regulations
    - Mr. Moloyan also serves as the institution's general counsel. In interviews, Mr. Moloyan stated that he views his position as a contractor role. Follow up with the institution's CFO and CEO confirms that Mr. Moloyan is indeed staff, paid through payroll, and eligible for benefits. Mr. Moloyan's salary is $10,000 per month.
- **Rhea Sanchez, EdD**, Chairperson of Department of General Education, Mt. Sierra College
    - During interview, Dr. Sanchez confirm that she has recently been appointed to the position of Vice President of Institutional Effectiveness for Mt. Sierra College (the promotion timing coincides with Dr. Tao's departure as president, as explained in the Board interview with the team).
    - In the filing with the California Secretary of State (dated January 29, 2018), Dr. Sanchez is identified as the Board Secretary.
- **Faye C. Montgomery, BA**, Commercial Real Estate Broker, Charles Dunn Company
    - Per LinkedIn, Ms. Montgomery specializes in the sales and leasing of retail, office and industrial properties.
    - Ms. Montgomery was instrumental in securing the current facility and lease agreement for PGU.
    - Ms. Montgomery has been a member of the Board for an extended period of time (specifics were difficult to determine but it was mentioned that she is soon to term out of her position); she is the only Board member remaining from early 2017.
- **Daniel Yao, PhD**, Director of Extended Education, California University of Management & Technology

    - Dr. Yao, during the Board interview with the team, admitted he has a financial interest in Community Business College, Inc., the recruiting agency working on behalf of PGU to increase enrollment of Chinese students.
- **Julia Swenson, MS, MBA**, Chief Operating Officer, ProBrand International Inc.
    - ProBrand: Designer and manufacturer of Advanced RF (microwave) antenna systems.
- **Joe Ford, MA**, Senior Vice President, Hathaway-Sycamores Child and Family Services
    - Hathway-Sycamores: Provides child-welfare services in the greater Los Angeles area.
    - Mr. Ford is an alumnus of the MFT program at PGU.

Discoveries/ Comments:

It appears that three (3) of the Board members have a connection at Mt. Sierra College: Eric Tao, Rhea Sanchez and Krikor Moloyan. Mr. Moloyan apparently teaches at the institution as a "Professor of Business Law & Legal Ethics."

As indicated, Daniel Yao is part of the administration team at California University of Management and Technology (CALMAT). Dr Tao is listed on the CALMAT website as a member of CALMAT's "Independent and Advisory Board Members" and the site lists him as member of the CALMAT faculty.

Eric Tao has a long list of organizations that he is or has been affiliated with including: Phillips Graduate University*, Bristol Investment Company*, University Corporation*, Wing Tech Corporation, Yanhuang University of Technology*, Yanhuang University*, Yanhuang International School of China*, Zeuss Group, Inc. and U.S. Higher Education Exchange Association Company. ("*" - Current or former member of the Board).
Mt. Sierra College is owned by the Hengda Group which is tied to USA Hengda Investment Corporation owned and operated by Beijing Hengda Investment Company. Per its website, Hengda Group, founded in 2009 is a " ... professional education investment company engaged in domestic and foreign education investment with dedication to development of international education industry." Tang Xuheng is President of Hengda Group and CEO of Mt. Sierra College. On the Hengda website, Yiqing Tao is listed as one of the executives in the role of President of Mt. Sierra College. Not sure of "Yiqing Tao" and "Eric Tao" are the same person. Xuheng Tang is listed as an officer at both Bristol Education Corp. and US Higher Education Exchange Association Company (HEEA). Regarding to HEEA, Xuheng Tang serves as Chairman, Eric Tao serves as Exective Vice President/ Executive Director and Rhea Sanchez serves on the General Education Committee. Regarding Bristol Education Corporation, Eric Tao has served as Chairman. In regard to the Zeuss Group, Inc. for which Eric Tao was apparently connected, it is the owner of California University of Management & Technology. Zeuss is owned by Chio Yen Tao [aka Chiuyen Wu-Tao].