

PERFORMANCE AUDIT  
OF THE  
OFFICE OF POSTSECONDARY SERVICES  
MICHIGAN DEPARTMENT OF CAREER DEVELOPMENT

May 2003



Michigan  
Office of the Auditor General  
REPORT SUMMARY

Performance Audit

Report Number:  
45-142-02

Office of Postsecondary Services

Michigan Department of Career Development

Released:  
May 2003

*The Office of Postsecondary Services (OPS) is responsible for promoting access to, retention in, and completion of individual student goals in quality, comprehensive postsecondary services. OPS administers a number of programs, including the King-Chavez-Parks (KCP) Initiative, the Proprietary School Unit (PSU), and the Community College Services Unit (CCSU).*

**Audit Objectives:**

1. To assess OPS's effectiveness in administering the Future Faculty Fellowship Program (FFFP) and the Select Student Support Services (4-S) Program within the KCP Initiative.
2. To assess OPS's effectiveness in administering PSU.
3. To assess OPS's effectiveness in administering CCSU.

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**Audit Conclusions:**

1. OPS was somewhat effective in administering both FFFP and the 4-S Program.
2. OPS was not effective in administering PSU.
3. OPS was generally effective in administering CCSU.

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**Material Conditions:**

The KCP Initiative should establish a more effective FFFP loan collection process (Finding 1).

The KCP Initiative should schedule and conduct regular on-site monitoring visits for the 4-S Program and review 4-S Program final reports (Finding 5).

PSU needs to improve the effectiveness of its process to identify unlicensed proprietary schools and take appropriate enforcement action (Finding 7).

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**Other Conditions:**

The KCP Initiative should ensure that universities establish an FFFP applicant ranking methodology and/or document their ranking of applicants (Finding 2).

The KCP Initiative did not add applicable interest and collection fees to defaulted FFFP fellowship loan accounts transferred to the Department of Treasury for collection (Finding 3).

The KCP Initiative did not conduct administrative hearings or otherwise take appropriate resolution action for FFFP fellows who request a hearing to appeal default judgments (Finding 4).

The KCP Initiative should provide more effective oversight for unused 4-S Program funds. Also, the Michigan Department of Career Development (MDCD) needs to provide 4-S Program approval notification and grant funding to grantees on a timely basis. (Finding 6)

PSU should establish a more effective proprietary school inspection process (Finding 8).

PSU should improve its oversight of proprietary school closures (Finding 9).

PSU did not ensure that proprietary schools comply with administrative rule operating

requirements regarding the competency of proprietary school personnel and advertising practices (Finding 10).

PSU did not employ sufficient staff, in accordance with statute, to effectively perform its administrative responsibilities (Finding 11).

CCSU should improve its administration of the federal Carl D. Perkins Vocational and Technical Education Act of 1998 Program (Finding 12).

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**Agency Responses:**

Our audit report includes 12 findings and 13 corresponding recommendations. MDCD's preliminary response stated that it agrees with 10 findings and disagrees with 2 findings.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: [www.state.mi.us/audgen/](http://www.state.mi.us/audgen/)



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AUDITOR GENERAL

May 9, 2003

Ms. Deb LaPine, Deputy Director  
Michigan Department of Career Development  
Victor Office Center  
Lansing, Michigan

Dear Ms. LaPine:

This is our report on the performance audit of the Office of Postsecondary Services, Michigan Department of Career Development.

This report contains our report summary; description of programs; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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## Description of Programs

Effective April 5, 1999, Executive Order No. 1999-1 created the Michigan Department of Career Development (MDCD). MDCD's mission\* is to develop a system that produces a work force with the required skills to maintain and enhance the Michigan economy. MDCD's Office of Postsecondary Services (OPS) is responsible for promoting access to, retention in, and completion of individual student goals in quality, comprehensive postsecondary services. The Michigan Department of Education administered OPS until Executive Order No. 1999-12 transferred the responsibility, effective January 1, 2000, to MDCD.

OPS administers a number of MDCD programs, including the King-Chavez-Parks (KCP) Initiative, the Proprietary School Unit (PSU), and the Community College Services Unit (CCSU):

a. KCP Initiative

This initiative administers the State-funded Future Faculty Fellowship Program (FFFP) and the Select Student Support Services (4-S) Program. Act 219, P.A. 1986, and Act 139, P.A. 1987, created FFFP and the 4-S Program, respectively, beginning in fiscal years 1986-87 and 1987-88. The KCP Initiative also administers the Visiting Professors, College Day, Michigan College/University Partnership, and Morris Hood, Jr., Educator Development Programs.

The goal\* of the KCP Initiative is to achieve parity in the number of baccalaureate degrees awarded to students traditionally underrepresented in Michigan's higher education system. The objectives\* of FFFP and the 4-S Program are:

(1) FFFP

To increase the pool of minority candidates pursuing full-time faculty teaching careers in postsecondary education in the State.

(2) 4-S Program

To provide seed money that will serve as a catalyst for institutional change, stimulating more coordinated efforts within institutions and ensuring both

\* See glossary at end of report for definition.

short- and long-term, measurable improvements in graduation rates of educationally and economically disadvantaged students enrolled in Michigan public and private four-year colleges and universities.

The Legislature annually appropriates funds for public and private universities that participate in these two programs. Funding for FFFP was \$1.3 million and \$2.1 million in fiscal years 2000-01 and 2001-02, respectively. Funding for the 4-S Program was \$1.3 and \$2.2 million in fiscal years 2000-01 and 2001-02, respectively.

b. Proprietary School Unit (PSU)

PSU licenses private schools that teach a trade, occupation, or vocation, usually to individuals beyond the high school level. Sections 395.101 - 395.103 of the *Michigan Compiled Laws* (Act 148, P.A. 1943) provide for the licensing of proprietary schools. At the time of our audit, there were 263 licensed proprietary schools in Michigan. In addition to licensing the schools, *Michigan Administrative Code* R 390.564(5) requires PSU to maintain student transcripts for closed proprietary schools. PSU is totally funded by license and other fees paid by the proprietary schools. The State provides no funding for proprietary schools' operations, and students pay their own tuition or seek financial assistance.

c. Community College Services Unit (CCSU)

CCSU was established in 1966 with the passing of the Community College Act. It has formed a partnership over the years with Michigan's community colleges to ensure: (1) increased access to affordable community college education, (2) excellence in teaching and learning through quality, comprehensive services, and (3) increased communications with business leaders, the Legislature, and the citizens of Michigan.

CCSU's responsibilities include providing oversight and technical assistance to community colleges and administering the federal Carl D. Perkins Vocational and Technical Education Act of 1998 (Perkins Act) as it relates to postsecondary occupational education. CCSU administered approximately 40% of the Perkins Act funds allocated to Michigan community colleges, totaling \$13.9 million and \$14.3 million in fiscal years 2000-01 and 2001-02, respectively. CCSU is also

responsible for collecting and reporting on student, program, and financial data for State and federal purposes. The data is published annually in publications such as the Activities Classification Structure Data Book and the Community College Enrollment Profile.

As of July 31, 2002, OPS had 17 full-time equated employees and 3 limited-term appointees to administer its programs.

## **Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up**

### Audit Objectives

Our performance audit\* of the Office of Postsecondary Services (OPS), Michigan Department of Career Development (MDCD), had the following objectives:

1. To assess OPS's effectiveness\* in administering the Future Faculty Fellowship Program (FFFP) and the Select Student Support Services (4-S) Program within the King-Chavez-Parks Initiative.
2. To assess OPS's effectiveness in administering the Proprietary School Unit (PSU).
3. To assess OPS's effectiveness in administering the Community College Services Unit (CCSU).

### Audit Scope

Our audit scope was to examine the program and other records of the Office of Postsecondary Services. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

### Audit Methodology

Our audit work, performed from March through July 2002, included an examination of OPS and related MDCD records and selected college and university records primarily for the period August 1, 1999 through July 31, 2002.

Our methodology included a preliminary survey of OPS's operations to determine the programs it administered and corresponding management control\*.

To accomplish our first objective, we reviewed applicable State statutes, administrative rules, and policies and procedures. We interviewed OPS's FFFP and 4-S Program staff and universities' staff and reviewed the selection processes for FFFP fellows and 4-S

\* See glossary at end of report for definition.

Program grantees. Also, we evaluated the collection procedures for FFFP fellows in current and default status. In addition, we examined case files from five universities that operated FFFPs to review documentation supporting fellowships funded and certain operational practices. Further, we reviewed OPS's 4-S Program on-site monitoring and its review of 4-S Program final reports of colleges and universities. Also, we evaluated FFFP's and the 4-S Program's recovery process for unused funds.

To accomplish our second objective, we reviewed applicable State statutes, administrative rules, and policies and procedures. We interviewed PSU staff and reviewed a sample of school case files to determine whether application and renewal requirements were met. Also, we examined PSU records to determine whether PSU identified and took the appropriate enforcement action against unlicensed schools. In addition, we reviewed the monitoring of schools to determine compliance with established procedures. Further, we assessed PSU's process for identifying school closures and securing student records of closed schools.

To accomplish our third objective, we reviewed applicable federal regulations, State statutes, and CCSU policies and procedures. We interviewed CCSU staff and verified the accuracy of the State funding formula calculations and the federal Carl D. Perkins Vocational and Technical Education Act of 1998 (Perkins Act) program allocations for randomly selected colleges. Also, we assessed CCSU's monitoring of randomly selected colleges' compliance with Perkins Act requirements regarding applications and core indicators. In addition, we reviewed CCSU's compliance with State and federal reporting requirements.

#### Agency Responses and Prior Audit Follow-Up

Our audit report includes 12 findings and 13 corresponding recommendations. MDCCD's preliminary response stated that it agrees with 10 findings and disagrees with 2 findings.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require MDCCD to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

OPS complied with 15 of the 33 prior audit recommendations included within the scope of our current audit. Four prior audit recommendations were repeated in this report, and 14 were rewritten for inclusion in this report.

# COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## EFFECTIVENESS IN ADMINISTERING THE FUTURE FACULTY FELLOWSHIP PROGRAM (FFFP) AND THE SELECT STUDENT SUPPORT SERVICES (4-S) PROGRAM

### COMMENT

**Background:** FFFP's objective is to increase the pool of minority candidates pursuing full-time faculty teaching careers in postsecondary education in the State of Michigan. Candidates selected as fellows\* must enter into a contract with the State that requires the fellow to teach three years in postsecondary education. Master and doctorate level fellows receive fellowships of up to \$20,000 and \$35,000, respectively. FFFP policies and procedures require the fellowship to be converted to a loan, which the fellow is required to repay the State, if a fellow does not complete his/her degree or, within one year from graduation, he/she 1) does not secure a full-time or part-time equivalent teaching position at a college or university in either Michigan or a state with which Michigan has established a reciprocity agreement or 2) does not continue from the master to doctorate level.

The 4-S Program's objective is to provide seed money that will serve as a catalyst for institutional change, stimulating more coordinated efforts within institutions and ensuring both short- and long-term, measurable improvements in graduation rates of educationally and economically disadvantaged students enrolled in Michigan public and private four-year colleges and universities.

**Audit Objective:** To assess OPS's effectiveness in administering FFFP and the 4-S Program within the King-Chavez-Parks (KCP) Initiative.

**Conclusion:** We concluded that OPS was somewhat effective in administering FFFP. Our assessment disclosed one material condition\*. The KCP Initiative should establish a more effective FFFP loan collection process (Finding 1). Also, our

\* See glossary at end of report for definition.

assessment noted reportable conditions\* related to the ranking of FFFP applicants, interest and collection fees on defaulted loan accounts, and administrative hearings for appeals (Findings 2 through 4). **We also concluded that OPS was somewhat effective in administering the 4-S Program.** Our assessment disclosed one material condition. The KCP Initiative should schedule and conduct regular on-site monitoring visits for the 4-S Program and review 4-S Program final reports (Finding 5). Also, our assessment noted a reportable condition related to unused 4-S Program funds (Finding 6).

## **FINDING**

### **1. FFFP Loan Collections**

The KCP Initiative should establish a more effective FFFP loan collection process.

Universities award FFFP fellowships of up to \$20,000 for a master's degree and \$35,000 for a doctoral degree to selected candidates. The fellowship contractual agreements require FFFP fellows to complete three years of teaching after the completion of their degrees in order to fulfill their contracts. After completing their degrees, fellows have one year to obtain employment in either a full-time or part-time teaching position. If the fellows do not obtain such employment or otherwise do not fulfill the teaching requirements, they are in default of their FFFP contracts and the fellowships are converted to loans that the fellows must repay to the State. The KCP Initiative sets up a monthly payment schedule with the fellows and maintains pertinent records of the outstanding loans. If fellows become delinquent in their payments, the KCP Initiative may, after making reasonable attempts to collect on the defaulted loans, transfer the accounts to the Department of Treasury for further collection efforts, including garnishment of fellows' wages and tax refunds.

As of April 3, 2002, the KCP Initiative's outstanding loan database contained 54 "active" outstanding FFFP loan accounts with a total balance owed of \$508,495. Our review of these active loan accounts and related administration disclosed that the KCP Initiative's collection efforts were limited for those accounts that did not

\* See glossary at end of report for definition.

make monthly payments in accordance with the established payment schedule. Specifically, our review disclosed:

- a. Many of the FFFP loan accounts were in a delinquent status.

The KCP Initiative had not received any payments for 31 (57%) of the 54 FFFP loan accounts in at least 12 months; the outstanding loan balance for the 31 accounts was \$319,132, or 63% of the total outstanding FFFP loan balance. Of the 31 delinquent accounts, the KCP Initiative had not received any payments for 12 (39%) accounts in at least 12 months and for 19 (61%) accounts in at least 24 months.

- b. The KCP Initiative made limited effort to identify and collect delinquent FFFP loans.

The KCP Initiative did not periodically review loan accounts to identify delinquent accounts and initiate collection actions and had taken no action to collect amounts owed for the 31 delinquent accounts discussed in item a.

The KCP Initiative did not use telephone calls, collection letters, or collection agencies or transfer the accounts to the Collection Division, Department of Treasury, to help in the collection of delinquent accounts. These, along with other administrative tools, are common practices used effectively in collecting delinquent accounts. The KCP Initiative's use of such tools should significantly increase the collection of delinquent FFFP loans.

- c. The KCP Initiative did not issue periodic comprehensive billings to fellows for FFFP loans.

The issuing of periodic comprehensive billings to fellows for amounts owed is critical to an effective loan collection process and should help increase the collection of delinquent loans.

- d. The KCP Initiative did not maintain complete and accurate records of all FFFP loan amounts owed the State.

Our review of loan accounts and other pertinent records disclosed:

- (1) One loan for \$3,315, which the fellow should have begun repaying in April 1999, was not on the outstanding loan database or otherwise subject to the loan collection process. The KCP Initiative had not received any payments on this loan.
  - (2) One fellow did not receive her degree within the FFFP contractual time period; therefore, the \$7,800 fellowship should have been converted to a loan in April 1998 and a repayment schedule developed. However, the KCP Initiative did not make this conversion.
  - (3) The KCP Initiative could not find 3 loan case files. An FFFP case file contains the fellowship contractual agreement, loan repayment schedule, correspondence with the fellow, and any other information related to the fellowship/loan. These loans were part of the 12 accounts discussed in item a. that had no payment activity in at least 12 months.
- e. The KCP Initiative had not established formal written policies and procedures for the FFFP loan collection process.

Written policies and procedures should include issues such as the criteria for and timeliness of billings and the use of various collection methods and tools. Such policies and procedures would help ensure that the KCP Initiative effectively manages its FFFP loan collection process. The lack of formal policies and procedures probably contributed to a number of the conditions noted in this finding.

The probability of recovering amounts owed decreases significantly the longer a debt is delinquent. Therefore, without an effective FFFP loan collection process, the KCP Initiative's ability to collect amounts owed the State is seriously diminished. As reported in Finding 3, as of September 30, 2001, the KCP Initiative had transferred 76 defaulted FFFP fellowship loan accounts totaling approximately \$987,000 to the Department of Treasury for collection.

## **RECOMMENDATION**

We recommend that the KCP Initiative establish a more effective FFFP loan collection process.

## **AGENCY PRELIMINARY RESPONSE**

The Michigan Department of Career Development (MDCD) stated that it disagrees with this finding. MDCD's response included the following three comments:

1. MDCD stated that it does not believe that its prior inability to collect loans has impaired its ability to operate FFFP in an effective and efficient manner.

**Epilogue:** As of April 2002, the KCP Initiative had 54 active outstanding loans, many of which were delinquent and not being "worked" for collection. These current loans were in addition to 76 defaulted loans previously referred to the Department of Treasury. The KCP Initiative's failure to effectively monitor and collect outstanding loans may result in fellows/debtors not actively pursuing an instructional career because their risk of having to repay the loan has been minimal.

2. The KCP Initiative staff informed us that they have consulted with the Department of Treasury's Collection Division to obtain guidance in the development of formal written policies for in-house FFFP loan collection activities. Internal policies reflect this collaborative work and detail the KCP Initiative in-house loan collection process.
3. The KCP Initiative informed us that it hired an outside contractor in March 2001, one year before the audit of this program even commenced, to develop a comprehensive FFFP database designed to track fellows at all stages of their involvement with the program. The KCP Initiative also informed us that it piloted the new database in October 2001. The loan tracking functionality of the database was an original design specification and was being worked into the system when the auditors came in to do their review. The new FFFP database allows the KCP Initiative to produce program summary and status reports to address delinquent status, identify and collect delinquent FFFP loans, issue periodic statements to delinquent fellows, maintain complete and accurate records of all loan amounts owed the State, and strengthen the overall monitoring structure of FFFP.

**Epilogue:** Although its new FFFP database was operational in fall 2001, the KCP Initiative had not established processes to effectively monitor the status of loans as of April 2002. After our inquiries, the KCP Initiative began "working" its past due accounts in summer 2002, which resulted in 2 loans being collected in full, receiving periodic payments for 7 others, and 7 more accounts being referred to the Department of Treasury for collection.

## **FINDING**

### **2. Ranking of FFFP Applicants**

The KCP Initiative should ensure that universities establish an FFFP applicant ranking methodology and/or document their ranking of applicants.

Annual appropriations acts and the FFFP Administrative Handbook state that FFFP's objective is to increase the pool of minority candidates pursuing full-time faculty teaching careers in postsecondary education in the State. Universities award FFFP fellowships of up to \$20,000 for a master's degree and \$35,000 for a doctoral degree. The Handbook requires that fellows remain in a full-time or part-time equivalent teaching position at a college or university in either Michigan or a state with which Michigan has established a reciprocity agreement for a minimum of three years. FFFP's stated intent is that fellows will continue teaching at the colleges and universities after they have fulfilled their three-year teaching requirement.

The Handbook provides general policy regarding eligibility of individuals applying for FFFP fellowships. Each university is responsible for establishing its own guidelines, criteria, process, etc., for selecting individuals to receive FFFP fellowship awards, as long as this process is inclusive of the minimum State requirements as stated in the Handbook. The KCP Initiative is not involved in the fellowship selection process and is informed of the individuals selected when the universities submit their annual report approximately 60 days after the State's fiscal year-end.

We reviewed the FFFP fellowship award process of 5 universities for fiscal years 2000-01 and 2001-02. Our review disclosed:

- a. Three (60%) of 5 universities did not establish a methodology for ranking FFFP applicants.

The Handbook requires that each university establish a committee consisting of faculty members to review the fellowship applications and rank each application based on the institution's selection criteria. Although the 3 colleges had established selection criteria, they had not developed a measurable methodology and had not ranked the applicants as required. Such methodology and the resulting ranking of applicants would help ensure the awarding of fellowships to the most deserving applicants and the equitable allocation of the universities' limited FFFP fellowship funding.

- b. One of the 2 universities that had established a ranking methodology did not maintain documentation to support the ranking of all applicants.

The Handbook requires that a university document the award process and maintain records that support the ranking of each applicant. Without documentation to support the ranking, the university could not support the propriety of the FFFP fellowship awards.

### **RECOMMENDATION**

We recommend that the KCP Initiative ensure that universities establish an FFFP applicant ranking methodology and/or document their ranking of applicants.

### **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it generally agrees with this finding. The FFFP Administrative Handbook requires that institutions rank applicants. MDCD stated that it believes that in many cases rankings are not necessary, as most of the universities participating in FFFP do not have enough applicants to fill the available FFFP slots. Further, FFFP applicants are already admitted into graduate programs, which have much more stringent criteria than does FFFP.

MDCD informed us that despite this, information pertinent to the draft audit finding was distributed and discussed at the semi-annual FFFP meeting with the

universities in fall 2002. Ranking of applicants will continue to be required when applicants are selected. MDCD will continue to emphasize the need for the accurate and appropriate ranking of FFFP applicants in its written technical program guidance and during its technical assistance site visits and will include this attribute for review in future monitoring visits.

## **FINDING**

### **3. Interest and Collection Fees on Defaulted Loan Accounts**

The KCP Initiative did not add applicable interest and collection fees to defaulted FFFP fellowship loan accounts transferred to the Department of Treasury for collection.

When an FFFP fellow defaults on a fellowship award, the fellowship becomes a loan subject to interest charges and collection fees. After the KCP Initiative makes reasonable attempts to collect on a defaulted loan account but is not successful, the KCP Initiative transfers the account to the Collection Division, Department of Treasury, for further collection efforts. The fellowship contractual agreement contained within the FFFP Administrative Handbook states that the loan amount to be repaid will include the fellowship award plus interest fixed at the rate in effect on the date of the default as declared by the Department of Treasury, pursuant to Section 205.23 of the *Michigan Compiled Laws*, and any collection fees. The Department of Treasury assesses a collection fee of 15% to 20% of the loan amount collected. As of September 30, 2001, the Department of Treasury had 76 defaulted FFFP fellowship loan accounts totaling approximately \$987,000, 72 (95%) of which had been transferred to it prior to December 31, 1998.

The KCP Initiative calculated interest from the date of default until the date the defaulted FFFP fellowship loans were transferred to the Department of Treasury. However, after the KCP Initiative transferred the accounts, it did not calculate and add the subsequent interest to the accounts. We determined that the KCP Initiative did not compute and add at least \$52,582 in interest to the defaulted loan accounts for fiscal year 2000-01. Also, the KCP Initiative did not add collection fees to accounts on which the Department of Treasury made collections and assessed its fee. For example, the KCP Initiative did not add to the defaulted loan balances the \$6,503 in collection fees assessed by the Department of Treasury for fiscal year 2000-01.

Our prior audit report of the KCP Initiative also addressed this issue. The KCP Initiative agreed with the finding but disagreed with the recommendation. Although the KCP Initiative believed that calculating additional interest and collection fees for defaulted loans was not its responsibility, it indicated that it would initiate a process to add interest and collection fees to defaulted loans transferred to the Department of Treasury.

Adding applicable interest and collection fees to defaulted loans would provide fellows with additional incentive to repay the loans. Also, the Department of Treasury's recovery of interest and collection fees from the fellows would result in increased State revenue.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT THE KCP INITIATIVE ADD APPLICABLE INTEREST AND COLLECTION FEES TO DEFAULTED FFFP FELLOWSHIP LOAN ACCOUNTS TRANSFERRED TO THE DEPARTMENT OF TREASURY FOR COLLECTION.

### **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it agrees with this finding. The KCP Initiative will begin adding collection fees and will, in January of each year, add compounded interest for all defaulted loans previously forwarded to the Department of Treasury that are still active.

### **FINDING**

#### **4. Administrative Hearings for Appeals**

The KCP Initiative did not conduct administrative hearings or otherwise take appropriate resolution action for FFFP fellows who request a hearing to appeal default judgments.

When fellows fail to meet the criteria set forth in their FFFP contract, the KCP Initiative places the fellowship in default. Prior to fiscal year 2000-01, the FFFP Administrative Handbook allowed defaulted fellows to request a hearing to appeal default judgments. The hearings were conducted pursuant to Section 24.271 of the *Michigan Compiled Laws*, which states that a contested case shall be given an opportunity for a hearing without undue delay. Beginning in fiscal year 2000-01,

the Handbook states that fellows may appeal defaulted judgments to a circuit court pursuant to Section 600.631 of the *Michigan Compiled Laws*.

As reported in our prior audit, 15 fellows had appealed the KCP Initiative's default judgment and requested, but not yet had, hearings. These hearing requests were made from 1995 to 1998 and pertained to defaulted fellowships totaling approximately \$175,000. As of July 31, 2002, the KCP Initiative had not yet conducted hearings or taken resolution action for any of the 15 fellows. Also, as previously reported, the KCP Initiative again did not make collection efforts or accrue interest charges on these defaulted fellowships.

The KCP Initiative agreed with our prior audit finding and indicated that it had developed and implemented procedures for reestablishing hearings and had contacted the individuals to establish hearing dates. However, the KCP Initiative informed us that, because of the statutory change in the defaulted judgment appeals process, it was not sure how to proceed with the 15 "old" appeals.

The KCP Initiative's failure to conduct hearings or take other resolution action reduces the probability of collecting defaulted fellowships and related interest income.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT THE KCP INITIATIVE CONDUCT ADMINISTRATIVE HEARINGS OR OTHERWISE TAKE APPROPRIATE RESOLUTION ACTION FOR FFFP FELLOWS WHO REQUEST A HEARING TO APPEAL DEFAULT JUDGMENTS.

### **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it agrees with this finding. In consultation with the Department of Attorney General, the KCP Initiative will contract for an administrative hearings officer who will conduct a one-time hearing process. This process is specifically targeted at the 15 identified fellows who exercised their contractual provision that allowed for an appeal of the default judgment made concerning their fellowship agreement obligations.

## **FINDING**

### **5. 4-S Program On-Site Monitoring and Final Reports**

The KCP Initiative should schedule and conduct regular on-site monitoring visits for the 4-S Program and review 4-S Program final reports.

The KCP Initiative awarded 55 grants totaling approximately \$4.2 million to public and private colleges and universities for fiscal years 1999-2000 and 2000-01. The colleges and universities are to match the grant awards with a 30% institution contribution. The intent of the grants is to provide the colleges and universities with funds to develop retention programs for educationally and economically disadvantaged students and, therefore, increase the students' graduation rates.

The 4-S Program Administrative Handbook states that 10% of the annual grantee pool will be randomly selected during the first week of October for on-site monitoring visits. The Handbook also states that grantees may be selected for on-site monitoring visits based on a number of risk factors and that the on-site visits will consist of observations; a review of records, procedures, and program materials; and interviews. In addition, the Handbook contains specific procedures regarding the written monitoring report, grantee action plans for identified issues requiring change, and follow-up on-site monitoring visits. Further, the Handbook requires that grantees submit a 4-S Program final report package to the KCP Initiative at the end of each grant cycle. The final reports are to include a program participant's summary, a 4-S Program final core outcome indicators report, a final expenditure report, and narrative describing program success and lessons learned.

Our review of the KCP Initiative's oversight of the 4-S Program disclosed:

- a. The KCP Initiative did not schedule and conduct regular on-site monitoring visits.

Periodic on-site monitoring is necessary to help ensure that grantees operate their 4-S Program as intended and comply with applicable requirements. The lack of on-site monitoring of 4-S Program grantees is a significant management control weakness.

- b. The KCP Initiative did not review grantee final reports.

The final report serves as a useful management tool for the KCP Initiative to verify that expenditures were proper and that grantees met their 30% match requirement. Also, the report provides core indicator data and objective and related outcome data that should be useful in assessing whether grantees' 4-S Program efforts were in accordance with the grant proposal. The lack of any review of the grantee final reports is a significant management control weakness.

Without conducting on-site monitoring visits and/or reviewing final reports, the KCP Initiative had little assurance of the propriety of grantee 4-S Program efforts and the effectiveness of such efforts to increase the graduation rates of educationally and economically disadvantaged students.

### **RECOMMENDATION**

We recommend that the KCP Initiative schedule and conduct regular on-site monitoring visits for the 4-S Program and review 4-S Program final reports.

### **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it generally agrees with this finding. MDCD informed us that on-site visits were regularly conducted prior to June 2000. However, staff attrition necessitated discontinuing these regularly scheduled visits. Still, it was determined that certain grantee sites did need follow-up technical assistance and monitoring visits. MDCD informed us that those visits were conducted.

Recognizing that it was not able to conduct on-site reviews, MDCD informed us that it did use its limited resources to contract with an outside consultant, Massie & Associates, to review proposals for Act 93, P.A. 1999, for fiscal year 1999-2000. At the conclusion of the Massie & Associates initial review, the KCP Initiative staff informed us that they reviewed each individual report finding. Revisions in the requests for proposal and the 4-S Program Administrative Handbook are made each year following the final report reviews. Expanded review processes and procedures are documented.

The KCP Initiative informed us that it understands the importance and usefulness of monitoring in the administration of the 4-S Program. In the future, the KCP Initiative will make an effort to increase the number of on-site monitoring visits to

meet or exceed the number required in the Handbook. In addition, the KCP Initiative will make efforts to better document its reviews of grantee final reports.

## **FINDING**

### **6. Unused 4-S Program Funds**

The KCP Initiative should provide more effective oversight for unused 4-S Program funds. Also, MDCD needs to provide 4-S Program approval notification and grant funding to grantees on a timely basis.

The KCP Initiative annually awards 4-S Program grants to public and private colleges and universities. The 4-S Program Administrative Handbook requires that grantees return all unused funds (i.e., those that are unexpended and unencumbered that the grantees identify in their final expenditure reports) to the KCP Initiative. The unused funds cannot be encumbered for purposes other than completion of current fiscal year activities. However, the Handbook does permit unused funds to be used beyond the grant period if a grantee requests an extension in writing and the KCP Initiative approves the extension prior to September 30 of each year. Unused 4-S Program funds that the KCP Initiative does not approve for use beyond the grant period are to be lapsed to the State's General Fund.

The KCP Initiative competitively awarded 28 and 27 grants for fiscal years 1999-2000 and 2000-01 totaling approximately \$2.0 million and \$2.1 million, respectively. Our review of the grants disclosed:

- a. The KCP Initiative did not take appropriate action to help maximize the use of 4-S Program funding.

We determined that 20 (36%) of 55 grantees did not use approximately \$237,000 of their grant funds during fiscal years 1999-2000 and 2000-01 and did not request extensions. For example, one university did not expend \$44,610 of its 4-S Program grant funds and another university did not expend \$37,793.

Effective procedures to identify unused 4-S Program grant funds and redistribute the funds to other participating colleges and universities would

help maximize the use of the 4-S Program's limited funding and, therefore, should improve the effectiveness of the 4-S Program.

- b. The KCP Initiative sometimes inappropriately approved extension requests received after the required due date and sometimes did not approve extension requests in a timely manner.

The Handbook states that extensions to use unused funds beyond the grant period must be submitted in writing and approved by KCP prior to the end of the grant period. We noted that the KCP Initiative approved 6 (75%) of 8 grantee extension requests for fiscal years 1999-2000 and 2000-01 even though the requests were submitted after the due date. Also, the KCP Initiative did not respond in a timely manner to 3 (38%) of the 8 extension requests. In one case, a grantee requested an extension three times before the KCP Initiative approved the extension, six months after the initial request.

- c. The KCP Initiative did not recover unused 4-S Program funds from grantees when appropriate.

We determined that 4 (20%) of the 20 grantees with unused 4-S Program funds noted in item a. did not return their unused funds to the KCP Initiative. Also, the KCP Initiative had not contacted the 4 grantees to obtain the unused funds of approximately \$35,000 for fiscal years 1999-2000 and 2000-01.

- d. The KCP Initiative did not ensure that grantees returned unused funds in a timely manner.

For fiscal years 1999-2000 and 2000-01, the Handbook required that grantees return all unused 4-S Program funds identified in their final expenditure reports by November 30, 2000 and 2001, respectively. We noted that 16 (80%) of 20 applicable grantees returned unused funds after the November 30 due date. The grantees returned the funds an average of 96 days after the due date with a range from 6 days to 426 days. As a result, the State's General Fund balance was understated and expenditures were overstated by \$119,545 and \$82,274 for fiscal years 1999-2000 and 2000-01, respectively.

- e. MDCD sometimes did not provide 4-S Program approval notification or grant funding to grantees on a timely basis.

MDCD did not notify grantees of their 4-S Program approval for fiscal year 2001-02 grants until November 21, 2001. Also, MDCD did not distribute fiscal year 2001-02 4-S Program funds to the colleges and universities until more than four months after the beginning of the fiscal year. MDCD's untimely notification and distribution of 4-S Program funds may affect the colleges' and universities' ability to plan, implement, and/or continue their 4-S Program efforts.

### **RECOMMENDATIONS**

We recommend that the KCP Initiative provide more effective oversight for unused 4-S Program funds.

We also recommend that MDCD provide 4-S Program approval notification and grant funding to grantees on a timely basis.

### **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it generally agrees with this finding. The KCP Initiative informed us that it annually revises the 4-S Program Administrative Handbook to strengthen the reporting and ongoing review of 4-S Program grant funds. This revision now requires the grantee's budget office or contracts and grants office to approve all budget reports submitted throughout the grant contract year.

Moreover, the KCP Initiative informed us that it contracted with a consultant who developed an electronic version of the 4-S Program reports. This will allow for electronic submission, which will increase the timeliness of the reporting and assist in maximizing the use of 4-S Program funding. The new electronic reporting will also allow for the tracking of objectives, outcomes, and expenditures and increase the timeliness of processing extension requests. Pilot testing of the system is ongoing and final release of the application is expected in fall 2003.

## EFFECTIVENESS IN ADMINISTERING THE PROPRIETARY SCHOOL UNIT (PSU)

### COMMENT

**Background:** Proprietary schools are private schools that teach a trade, occupation, or vocation. PSU licenses proprietary schools to ensure that the schools comply with statutory and administrative rule operating requirements and, therefore, protect the best interests of the students.

**Audit Objective:** To assess OPS's effectiveness in administering the Proprietary School Unit (PSU).

**Conclusion:** We concluded that OPS was not effective in administering PSU. Our assessment disclosed one material condition. PSU needs to improve the effectiveness of its process to identify unlicensed proprietary schools and take appropriate enforcement action (Finding 7). Also, our assessment noted reportable conditions related to proprietary school inspections, closures, and personnel competency and advertising practices and to PSU staffing (Findings 8 through 11).

### FINDING

#### 7. Unlicensed Proprietary Schools

PSU needs to improve the effectiveness of its process to identify unlicensed proprietary schools and take appropriate enforcement action.

Section 395.101(1) of the *Michigan Compiled Laws* requires that all proprietary schools obtain a license. The intent of proprietary school licensure is to ensure that schools comply with statutory and administrative rule operating requirements and, therefore, protect the best interests of the students. Section 395.103 of the *Michigan Compiled Laws* states that a person operating a proprietary school found to be in noncompliance with the statute shall be guilty of a misdemeanor, punishable by a fine not to exceed \$1,000 or imprisonment for up to 90 days, or both.

At the time of our audit, there were 263 licensed proprietary schools in Michigan. PSU's process to identify unlicensed proprietary schools primarily consisted of

following up on complaints or referrals received from other schools and the general public.

Our review disclosed that PSU's process to ensure that proprietary schools operating in Michigan were licensed had significant deficiencies. Specifically:

- a. PSU did not identify numerous unlicensed proprietary schools.

MDCD contracted with a private vendor to establish and maintain its "Career Education Consumer Report" Web site. This Web site presents an alphabetical listing of various higher education schools operating in Michigan, including proprietary schools. We reviewed the 37 schools listed under the letters A through C of the Web site that were classified as proprietary schools. We determined that 11 (30%) of the 37 schools were proprietary schools operating without a license and 3 (8%) other schools may be proprietary schools and operating without a license. PSU was not aware of these 14 proprietary schools.

- b. PSU did not follow up on complaints or referrals it received regarding potentially unlicensed proprietary schools.

After receiving a complaint or referral regarding the operation of a potentially unlicensed proprietary school, PSU informed us that its informal procedure was to communicate with the school via telephone and/or letter and, if necessary, make an on-site visit to determine whether the school was operating in violation of the statute and required licensure. If PSU determined that the school was in violation of the statute and should be licensed, it would attempt to get the school licensed.

At the time of our audit, PSU's open complaint or referral file consisted of 29 cases of potentially unlicensed schools. We determined that PSU had taken no action to contact the schools or follow up on any of the 29 cases. Also, based on the information available in the complaint or referral files, PSU had received complaints or referrals for 16 of these cases more than 15 months prior to our review.

- c. PSU often did not take appropriate and timely action to close unlicensed proprietary schools and/or prosecute applicable school operators.

We reviewed 25 complaint or referral cases in which PSU had determined that a proprietary school was operating without a license and closed the case between June 1999 and May 2002. We determined that 11 (44%) of the 25 schools were still operating without a license as of July 31, 2002. After determining that the schools must obtain a license to operate, PSU had not taken action to initiate closure of the schools or prosecute the operators when they failed to obtain the license. For 7 cases, PSU sent a letter to the schools indicating that they must obtain a license and sent a copy of the letter to the Department of Attorney General. However, PSU did not formally request that the Department of Attorney General take action to close the schools or prosecute the operators.

Prior to September 2000, PSU had formally notified the Department of Attorney General of proprietary schools that required legal action. However, PSU staff stated that the Department of Attorney General considered its follow-up of unlicensed proprietary schools to be a low priority.

- d. PSU did not have statutory authority and was not otherwise aware of how to close an unlicensed proprietary school and refer school operators to a county prosecuting attorney for possible prosecution.

Neither statute nor administrative rules provided PSU with the authority to close a propriety school or refer the operator of a school that refuses to obtain a license to a county prosecuting attorney. Also, based on PSU's understanding of the Department of Attorney General's priorities, as discussed in item c. of this finding, PSU was not aware of legal protocol to enforce school closure or prosecute operators.

PSU should consult with the Department of Attorney General to determine the best approach for enforcing the proprietary school licensure statute.

- e. PSU had not developed comprehensive policies or procedures regarding unlicensed proprietary schools.

Comprehensive policies and procedures should address issues such as follow-up actions and time lines, prioritization of cases, maintenance of tracking records and complete files, and closure and prosecution actions. The lack of formal policies and procedures most likely contributed to many of the conditions noted in this finding.

- f. PSU should revise its agreements with other entities regarding the referral of potential students to unlicensed proprietary schools.

PSU had agreements with MDCD's Michigan Rehabilitation Services (MRS) and Michigan Works! agencies (MWAs), both of which often refer clients to various schools for training. The agreements required MRS and MWAs to determine whether the schools they referred clients to were proprietary schools and, if so, whether the schools were licensed. If a school was not licensed, MRS and MWAs were required to inform the school that it should contact PSU to apply for a license. However, the agreements did not require MRS or MWAs to notify PSU of the unlicensed school and cease referring clients to that school until it became licensed.

Requiring MRS and MWAs to notify PSU of unlicensed proprietary schools would provide PSU with another source of identifying unlicensed schools rather than relying on the unlicensed schools to initiate licensure.

We determined that 40 proprietary schools received their initial licenses between February 2001 and July 2002. Of the 40 schools, 20 (50%) were the result of PSU actions to bring unlicensed schools into compliance with statutory licensing requirements. However, the conditions identified in items a. through f. of this finding indicate that PSU was not effective in ensuring the licensure of proprietary schools in Michigan.

PSU informed us that the primary reason for the conditions identified in this finding was a lack of staff (see Finding 11). PSU's failure to identify unlicensed proprietary schools and take appropriate action increases the risk of financial loss to students and does not provide students with assurances that the schools offer a legitimate educational opportunity. Also, the licensure of unlicensed proprietary schools would provide additional operating revenue to fund PSU's administrative operations.

Our prior audit report of PSU also addressed the issue of unlicensed proprietary schools. PSU agreed with the finding and indicated that it would implement a process to identify unlicensed schools as personnel and time permitted.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT PSU IMPROVE THE EFFECTIVENESS OF ITS PROCESS TO IDENTIFY UNLICENSED PROPRIETARY SCHOOLS AND TAKE APPROPRIATE ENFORCEMENT ACTION.

### **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it generally agrees with this finding. MDCD informed us that PSU has identified unlicensed schools and takes vigorous steps to bring unlicensed schools into compliance with State of Michigan licensing requirements.

MDCD stated that PSU is very aware of how to close unlicensed proprietary schools; however, PSU does not have statutory authority to close or prosecute unlicensed proprietary schools. Unfortunately, efforts through the normal means were ineffective. As a consequence, PSU refocused its efforts on bringing unlicensed schools into compliance. In fiscal year 2001-02 alone, PSU has been effective in licensing 23 schools that were identified as operating without a license.

New policy and procedures dealing with unlicensed schools were effective January 2, 2003. PSU will continue to work with the Department of Attorney General to prosecute those schools that fail to comply with licensing statutes.

Prior to the audit, the MRS local agencies (August 16, 2001) and the MWAs (May 13, 2002) were notified that all vendors must be licensed. MDCD believes it was implied in the correspondence that these entities should notify PSU of any unlicensed proprietary schools. However, MDCD will specifically inform and emphasize to these agencies that they are obligated to notify PSU of any unlicensed proprietary schools of which they are aware.

## **FINDING**

### **8. Proprietary School Inspections**

PSU should establish a more effective proprietary school inspection process.

Section 395.102a(1) of the *Michigan Compiled Laws* requires that PSU provide for adequate inspection of all proprietary schools. *Michigan Administrative Code* R 390.563(2) requires that PSU periodically inspect proprietary schools after the initial issuance of a license or permit. On-site inspections are PSU's primary oversight tool for ensuring that licensed proprietary schools comply with statutory and administrative rule operating requirements and, thereby, provide students with the best possible educational opportunity to learn a trade, occupation, or vocation.

PSU informed us that its practice was only to perform on-site inspections of schools prior to the initial issuance of a license or permit, when a school relocated, and, possibly, when staff were in the geographical area of a school.

Our review of PSU's inspection process disclosed:

- a. PSU performed a limited number of on-site inspections.

PSU had never inspected 14 (5%) of the 263 proprietary schools licensed at the time of our audit. One (7%) of the 14 schools received its initial license or permit after October 1, 1999 and was not inspected prior to issuance of the license or permit. Of the 160 propriety schools that opened prior to April 1, 1998, as of July 1, 2002, PSU had not inspected 98 (61%) of the schools since prior to April 1, 1998 and 62 (39%) of the schools since prior to January 1, 1995.

- b. PSU had not developed formal policies and procedures regarding the inspection process.

Formal policies and procedures should address issues such as frequency of inspections, selection methodology, issuance of a formal inspection report, and noncompliance and deficiency follow-up. Also, the selection methodology should be based on risk factors such as financial stability, student loan default rates, changes in accreditation status, frequency and subject of complaints, and results of prior inspections.

Formal policies and procedures would help to ensure the propriety and uniformity of performing inspections and, therefore, should improve the effectiveness of the overall inspection process.

PSU informed us that the primary reason that it did not perform on-site inspections was a lack of staff (see Finding 11). With the limited effectiveness of its inspection process, PSU had little assurance that proprietary schools complied with statutory and administrative rule operating requirements.

### **RECOMMENDATION**

We recommend that PSU establish a more effective proprietary school inspection process.

### **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it agrees with this finding. MDCD believes that the PSU process for inspections has been somewhat effective with 75 inspection visits occurring to licensed or unlicensed proprietary schools in fiscal year 2001-02 alone. MDCD informed us that it has revised formal policies and procedures regarding the inspection process to include time lines and priority for visits based on risk factors such as financial stability, student loan default rates, changes in accreditation status, frequency and subject of complaints, and results of prior inspections. These policies and procedures also include pertinent areas for inspections as required by license requirements.

### **FINDING**

#### **9. Proprietary School Closures**

PSU should improve its oversight of proprietary school closures.

*Michigan Administrative Code R 390.564(5)* requires proprietary schools that are no longer operating to turn over their student records to PSU to be securely maintained in perpetuity. Pertinent student records include historical grade transcripts or other evidence of instructional attainment. Also, PSU states on its Web site and in printed literature that the purpose of proprietary school licensure includes ensuring that records of schools are properly secured and maintained and ensuring that students affected by school closures are able to complete their programs or are indemnified against loss of tuition and fees.

Our review of PSU activities regarding proprietary school closures disclosed:

- a. PSU often did not obtain and secure student records of closed proprietary schools.

Based on PSU data, we identified 50 proprietary schools that closed during the period October 1, 1999 through April 30, 2002. As of May 14, 2002, PSU had not obtained and secured or taken other action to secure student records for 32 (64%) of the schools.

Without securing student records, PSU cannot adequately respond to transcript or other student record requests. Also, students may suffer financial or employment losses if unable to verify their proprietary school education.

- b. PSU had not established procedures to identify proprietary school closures on a timely basis.

Of the 50 school closures discussed in item a., PSU identified 30 (60%) of the closures only when the schools did not renew their annual license. Of the 32 school closures discussed in item a. for which PSU had not obtained and secured records, PSU identified 27 (84%) of these closures only when the schools did not renew their annual license. PSU often did not have advance knowledge that a school was closing and, as a result, was not able to secure applicable records. Obtaining and securing records may be further complicated because school owners are often difficult to locate after a school closes.

We recognize that the timely identification of proprietary school closures may be a difficult task; however, it is critical that PSU be able to effectively obtain and secure school records.

- c. PSU did not ensure that students affected by proprietary school closures were able to complete their programs or were protected against financial loss.

PSU informed us that it assists students affected by proprietary school closures by arranging "teach-outs." Such arrangements are designed to assist remaining students in transferring to similar vocational schools to finish their

programs and receive credit for education and training completed at the closed school.

We selected 6 schools that closed during the period October 1, 1999 through April 30, 2002 and determined that PSU had not coordinated teach-outs for any of the 6 schools. In response, PSU stated that legislation does not require that PSU coordinate teach-outs. Although not required, providing affected students with applicable services would be in the best interest of the students and help fulfill PSU's oversight role for proprietary schools.

- d. PSU usually did not document actions taken regarding closed proprietary schools.

We reviewed PSU case files for 5 schools that had closed during the period October 1, 1999 through April 30, 2002 from which PSU stated that it had secured student records. Only 1 (20%) of 5 files contained documentation of PSU actions to contact school administrators or owners, secure student records, and coordinate teach-outs. Subsequently, PSU informed us of the location of the student records.

Proper documentation would help to ensure that PSU completed all necessary actions regarding closed proprietary schools and to respond to future student inquiries.

The conditions identified in items a. through d. of this finding prevent PSU from providing effective oversight of proprietary school closures.

### **RECOMMENDATION**

We recommend that PSU improve its oversight of proprietary school closures.

### **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it generally agrees with this finding. MDCD informed us that PSU did obtain records from schools when properly notified of the school closing. Sometimes schools are closed without PSU's knowledge. In some cases, there are no student records because the school closed before enrolling students. The revised rules, which were approved January 4, 1999, require proprietary schools to

submit a three-year business plan. Prior to this change, many new schools would close within the first year because of a lack of financial planning.

MDCD informed us that, when notified of a school closing, PSU works aggressively to accommodate a student in either completing his/her coursework or obtaining a tuition and fee refund. Additionally, MDCD informed us that PSU has developed procedures to maintain written correspondence in each closed school file.

## **FINDING**

### **10. Proprietary School Personnel Competency and Advertising Practices**

PSU did not ensure that proprietary schools comply with administrative rule operating requirements regarding the competency of proprietary school personnel and advertising practices.

Section 395.102a(3) of the *Michigan Compiled Law* grants jurisdiction and control over proprietary schools to PSU. Our review of selected PSU responsibilities disclosed:

- a. PSU did not evaluate the competency of all pertinent proprietary school personnel.

*Michigan Administrative Code R 390.564(2)* requires PSU to evaluate the competency of instructional and administrative personnel employed by proprietary schools. The rule states that instructional staff shall have backgrounds of appropriate education or appropriate experience in the substantive field that they are assigned to teach. Instructional personnel who teach in a field requiring a certificate or license shall possess such a certificate or license.

PSU required schools to submit personnel qualification forms for each instructional and administrative employee in the initial license application process. However, PSU did not evaluate the qualifications of instructional or administrative employees hired after the initial application review process. PSU could perform this function by requiring that schools submit new personnel qualification data during the annual renewal application process or by reviewing such data during periodic on-site inspections.

Without evaluating the competency of instructional and administrative personnel hired after a proprietary school's initial opening, PSU could not ensure that the schools continually employed qualified individuals.

- b. PSU did not evaluate advertising techniques and practices of proprietary schools.

*Michigan Administrative Code R 390.566* contains specific requirements regarding proprietary school advertising, including the requirement that the advertising describe only actual facts and statistics about the school, its offerings, and its staff.

PSU did not review proprietary schools' advertising during the initial license on-site inspection or subsequent inspections and did not require schools to submit examples of their advertising during the annual license renewal process. As a result, PSU had little assurance that proprietary schools did not make unsubstantiated or misleading claims in violation of the administrative rule.

To ensure that the public is accurately informed about the proprietary school and its offerings, PSU should periodically review school advertisements.

Our prior audit report of PSU also addressed both of these issues. PSU agreed with the findings and indicated that it would develop procedures to review the competency of proprietary school personnel and advertising practices.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT PSU ENSURE THAT PROPRIETARY SCHOOLS COMPLY WITH ADMINISTRATIVE RULE OPERATING REQUIREMENTS REGARDING THE COMPETENCY OF PROPRIETARY SCHOOL PERSONNEL AND ADVERTISING PRACTICES.

### **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it agrees with this finding. MDCD informed us that PSU continues to ensure that proprietary schools comply with administrative rule operating requirements regarding the competency of personnel by requiring submission of personnel qualification information as part of the initial licensing

process and during on-site inspections. To further strengthen controls, PSU will request personnel qualification forms annually beginning with the July 1, 2003 renewal processes. Sample advertising techniques will also be added to the annual renewal application for a proprietary school.

## **FINDING**

### **11. PSU Staffing**

PSU did not employ sufficient staff, in accordance with statute, to effectively perform its administrative responsibilities.

Section 395.102a of the *Michigan Compiled Laws* requires that PSU employ the personnel necessary to carry out its administrative responsibilities to exercise jurisdiction and control over proprietary schools. The statute also requires that PSU set and collect fees for licenses, temporary permits, and renewals. These restricted revenues are to be used solely for PSU's administrative expenses.

PSU informed us that it was deficient in performing a number of its administrative responsibilities, such as identifying proprietary schools operating without licenses and taking appropriate action (see Finding 7) and conducting on-site inspections (see Finding 8), primarily because of a lack of staff.

Our review of pertinent fiscal issues disclosed that PSU did not expend \$98,111 of its fiscal year 1998-99 appropriation and \$71,472 of its fiscal year 1999-2000 appropriation. Also, PSU significantly increased fees charged to proprietary schools, effective January 1999. As a result, PSU's restricted revenue carry-forward year-end balance increased to \$171,538, \$241,981, and \$322,322 for fiscal years 1998-99, 1999-2000 and 2000-01, respectively. However, PSU took no action during these fiscal years to use the unexpended appropriations or the restricted revenue balances to increase its staffing level.

In fiscal year 2001-02, PSU requested and received approval for a \$104,800 appropriation increase for fiscal year 2002-03. However, PSU's request indicated that it would use the additional funds for projects and expenses other than increasing its staffing level.

To help ensure that PSU accomplishes its mission of licensing proprietary schools and ensuring that students receive quality education and training from such schools, PSU should take appropriate action to increase staffing to a level sufficient to effectively perform its required administrative duties.

### **RECOMMENDATION**

We recommend that PSU employ sufficient staff, in accordance with statute, to effectively perform its administrative responsibilities.

### **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it disagrees with this finding. MDCD informed us that OPS has routinely hired staff to fill its eligible full-time equated (FTE) positions. An increase of dollars allocated for PSU was approved beginning in fiscal year 2002-03 and requests will be made to address staffing needs.

**Epilogue:** Although OPS has hired staff to fill its authorized FTE positions, PSU stated that it was deficient in performing a number of administrative responsibilities primarily because of a lack of staff. Therefore, OPS should request an increase in authorized FTE positions to use its restricted funds (no increase in General Fund appropriations) collected solely for PSU's administrative expenses. Conversely, if additional FTE positions are not requested, OPS should consult with the Department of Management and Budget to dissolve its carry-forward balance.

## **EFFECTIVENESS IN ADMINISTERING THE COMMUNITY COLLEGE SERVICES UNIT (CCSU)**

### **COMMENT**

**Background:** CCSU performs a number of functions related to oversight, funding, and improvement of the State's 28 community colleges.

**Audit Objective:** To assess OPS's effectiveness in administering CCSU.

**Conclusion:** We concluded that OPS was generally effective in administering CCSU. However, our assessment disclosed a reportable condition related to CCSU administration of the Perkins Act Program (Finding 12).

## **FINDING**

### **12. CCSU Administration of Perkins Act Program**

CCSU should improve its administration of the federal Carl D. Perkins Vocational and Technical Education Act of 1998 (Perkins Act) Program.

CCSU began providing Perkins Act federal funds to the State's community colleges and three of the State's universities in fiscal year 1999-2000. CCSU allocated approximately \$42 million in Perkins Act funds to the colleges and universities for the three-fiscal-year period ended September 30, 2002. The Perkins Act allocation is based on a formula that includes the colleges' and universities' occupational contact hours, total student contact hours, and number of federal Pell Grant recipients. The colleges and universities use Perkins Act funding to improve occupational program activities and services and to prepare students for employment in current or emerging occupations requiring degrees other than a baccalaureate or an advanced degree.

Colleges and universities submit an annual application to CCSU in order to receive Perkins Act funds. The application includes the applicants' proposed Perkins Act activities and anticipated outcomes. These proposed activities and anticipated outcomes are intended to align with seven overall core performance indicators (CPIs). These CPIs are the statistical benchmarks negotiated between the U.S. Department of Education and CCSU that are used to evaluate program effectiveness. The seven CPIs are academic attainment, occupational work skill attainment, graduation rates of occupational students, job placement, employment retention, nontraditional enrollment, and nontraditional completions. The Dean's Guide and the annual application instructions require that the applicants concentrate their proposed activities and anticipated outcomes on CPIs for which they were below the State average in prior years and continue to strive to improve performance on all other CPIs.

CCSU reviews the applications to determine whether proposed activities and anticipated outcomes are in accordance with Perkins Act requirements. Also, CCSU performs on-site monitoring reviews at the colleges and universities on a planned four-year cycle. In addition, the colleges and universities submit an annual final report that presents various information regarding their use of Perkins Act funding.

Our review of CCSU's administration of the Perkins Act disclosed:

- a. Applicants usually did not state anticipated outcomes in measurable terms.

Prior to fiscal year 2002-03, CCSU application instructions did not require applicants to state their anticipated outcomes in measurable terms for proposed Perkins Act activities; however, the fiscal year 2002-03 application instructions appropriately included this requirement. We reviewed 8 approved applications, 4 each for fiscal years 2001-02 and 2002-03, and determined that the applicants usually did not state anticipated outcomes in measurable terms for either year. This condition significantly reduces the usefulness of the outcomes as an indicator of effectiveness.

- b. The application and final report were not structured in a comparable format.

The application is structured by activity and the corresponding anticipated outcome, e.g., tutoring for targeted special populations with an increased percentage of course success. However, the final report is structured by financial function code, which is an accounting classification designating an expenditure type, e.g., instruction, pupil support services, career guidance, and instructional equipment. As a result, it would be difficult to determine from the final report whether a college or university had actually performed the proposed activities and achieved the anticipated outcomes indicated in the application. Therefore, CCSU did not compare the application with the final report to determine the activities performed and outcomes achieved.

To help ensure that colleges and universities actually perform proposed activities and achieve anticipated outcomes, CCSU should revise the final report format to provide comparability.

- c. CCSU needs to improve several aspects of its on-site monitoring process.

Our review of CCSU's on-site monitoring process for the Perkins Act disclosed:

- (1) CCSU should perform on-site monitoring reviews on a more timely and frequent basis.

As stated previously, CCSU performs on-site reviews at the colleges and universities on a planned four-year cycle. A four-year cycle would result in CCSU not performing the initial on-site monitoring review for some colleges until the third or fourth year after the Perkins Act Program began. Because the Program began in fiscal year 1999-2000, the community colleges are still in the "early years" of implementing their programs. As a result, it would appear that performing at least the initial on-site monitoring reviews on a more timely basis would be appropriate and useful in helping to ensure that colleges and universities implement the Program as expected and in accordance with established requirements. Also, because there are a limited number of program recipients in Michigan, CCSU should consider performing on-site monitoring visits more frequently than every four years.

- (2) CCSU did not adequately document its on-site visits.

CCSU prepared a compliance review checklist for each on-site monitoring review performed. The checklist indicated the review items and types of suggested evidence that the CCSU consultant should and did review in order to determine compliance. However, neither the checklist nor the files contained documentation describing what evidence was reviewed in order to determine compliance or noncompliance. For example, under the faculty work experience and licensure review item, the checklist indicated that the personnel files had been reviewed for a job resumé; however, it did not indicate how many files were reviewed, for which faculty, or for what time period.

To better support conclusions and help ensure the performance of comprehensive on-site monitoring reviews, CCSU should adequately document work performed.

Addressing issues identified in items a. through c. of this finding would improve CCSU's administration of the Statewide Perkins Act Program and should help to improve the effectiveness of the individual colleges' and universities' Perkins Act programs.

## **RECOMMENDATION**

We recommend that CCSU improve its administration of the Perkins Act Program.

## **AGENCY PRELIMINARY RESPONSE**

MDCD stated that it generally agrees with this finding. Monitoring of the application and all of its components is part of the staff's ongoing responsibilities and is accomplished through face-to-face visits, telephone calls, conference meetings, and electronic correspondence and through a review of changes in the performance factors over the fiscal year. The applications for fiscal year 2002-03 stress anticipated outcomes as defined by the federal core indicators.

A work sheet will be provided to the colleges for the fiscal year 2002-03 grant processes to ensure additional documentation. MDCD will document the college outcomes and evaluation methods, including the periodic modifications to address the issue of outcome measurement. Additionally, MDCD informed us that the application and the final report are being reviewed to look at ways to increase the utility of these tools.

Technical assistance is federally funded and supports the monitoring that occurs on a formal basis. On-site technical assistance reviews are but one means of monitoring the colleges that CCSU performs. There are numerous visits that occur throughout the year that focus on improvement and implementation. Technical assistance will continue at administrative meetings and through consultant visits. Increased documentation will be made.

## Glossary of Acronyms and Terms

<b>CCSU</b>	Community College Services Unit.
<b>CPI</b>	core performance indicator.
<b>effectiveness</b>	Program success in achieving mission and goals.
<b>efficiency</b>	Achieving the most outputs and outcomes practical with the minimum amount of resources.
<b>fellow</b>	A graduate student selected by a Michigan university to receive an FFFP fellowship award for use in pursuing a master's or doctoral degree.
<b>FFFP</b>	Future Faculty Fellowship Program.
<b>FTE</b>	full-time equated.
<b>goals</b>	The agency's intended outcomes or impacts for a program to accomplish its mission.
<b>KCP</b>	King-Chavez-Parks.
<b>management control</b>	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that goals are met; resources are used in compliance with laws and regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.
<b>material condition</b>	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.

<b>MDCD</b>	Michigan Department of Career Development.
<b>mission</b>	The agency's main purpose or the reason that the agency was established.
<b>MRS</b>	Michigan Rehabilitation Services.
<b>MWA</b>	Michigan Works! agency.
<b>objectives</b>	Specific outcomes that a program seeks to achieve its goals.
<b>OPS</b>	Office of Postsecondary Services.
<b>performance audit</b>	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
<b>Perkins Act</b>	federal Carl D. Perkins Vocational and Technical Education Act of 1988.
<b>PSU</b>	Proprietary School Unit.
<b>reportable condition</b>	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
<b>4-S</b>	Select Student Support Services.