

CONTINUING EDUCATION
CALIFORNIA STATE UNIVERSITY,
FRESNO

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CONTENTS

INTRODUCTION

Purpose.....	1
Scope and Methodology.....	2
Background	3
Opinion.....	3
Executive Summary.....	4

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Continuing Education Programs And Administration.....	6
Fiscal Services	6
Academic Departments.....	7
Expenditures	8
Revenue Distribution And Retained Earnings	9
General Fund Reimbursement	9
Revenue Sharing.....	11
Enrollment And Student Records	12
Fee Reconciliation	12
Non-Discrimination Statement	13
Course Selection And Management.....	13

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Campus Response
APPENDIX C:	Chancellor's Acceptance

ABBREVIATIONS

A & H	School of Arts and Humanities
AEI	American English Institute
CE	Continuing Education
CERF	Continuing Education Revenue Fund
CSB	Craig School of Business
CSU	California State University
EE	Extended Education
EO	Executive Order
MOU	Memorandum of Understanding
SAM	State Administrative Manual
SUAM	State University Administrative Manual
UBC	University Business Center

INTRODUCTION

PURPOSE

Our overall audit objective was to ascertain the effectiveness of policies and procedures related to the administration of Continuing Education programs and to determine the adequacy of controls over Continuing Education Revenue Fund (CERF) operations.

Within the overall audit objective, specific goals included determining whether:

- ▶ the campus maintains a clear distinction between campus-owned and auxiliary-owned programs and has written agreements with auxiliary organizations for the administration and management of Continuing Education programs;
- ▶ technology delivered distance education controls are similar to those maintained over traditionally delivered education;
- ▶ budgeting procedures include all course costs and revenues to identify potential course losses in advance and ensure that course selection and management are in accordance with CSU policies and state regulations;
- ▶ the CSU additional employment policy regarding the faculty selection process is complied with, faculty payments are made in accordance with CSU directives, and written agreements stipulate set fees when independent contractors are used as instructors;
- ▶ enrollment procedures and maintenance of student records adequately meet accounting, academic and informational needs;
- ▶ cash receipts, refunds, dishonored checks and other debts are adequately controlled and properly accounted for;
- ▶ cash disbursements are adequately controlled and made solely for the support and development of self-supporting CSU programs;
- ▶ the general fund is reimbursed for all supplies, services and overhead expenses related to extended education programs; and
- ▶ continuing education activity is accurately reported and the CERF contingency reserve balance is maintained in compliance with CSU directives.

SCOPE AND METHODOLOGY

This review emphasized but was not limited to compliance with state laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters and directives.

The analyses and recommendations outlined by the CSU Task Force Report on Continuing Education, dated December 16, 1996, was used to evaluate the documentation of business activities between the campus and such non-state auxiliary organizations as the foundation.

A key issue for this review involves compliance with California Education Code § 89704, State University Continuing Education Revenue Fund (CERF), which states in part "...revenues received by the Trustees of the California State University from extension programs, special sessions, and other self-supporting instructional programs, including but not limited to, fees and charges required by the trustees, shall be transmitted to the Treasurer and shall be deposited by that officer in the State Treasury to the credit of the State University Continuing Education Revenue Fund".

June 1997 to date was the primary period of review.

Our focus involved a wide variety of issues dealing with CERF operations as a self-supporting entity. Specifically, we reviewed and tested:

- ▶ use of the foundation for the administration and management of Continuing Education programs;
- ▶ budgeting procedures, fee authorization, and the selection and management of courses including technology delivered distance education;
- ▶ management of faculty workload and payments to faculty and other instructors;
- ▶ enrollment procedures and maintenance of student records;
- ▶ procedures for controlling and processing cash receipts, refunds, dishonored checks, and other debts;
- ▶ procedures for controlling and processing cash disbursements, reimbursements to the general fund and revenues shared with academic departments; and
- ▶ reporting of continuing education activity and the maintenance of the CERF contingency reserve.

BACKGROUND

In response to the systemwide risk assessment conducted during 1996, which included input from officers representing the chancellor's office and each CSU campus, this review of Continuing Education was directed by the Board of Trustees at its January 1998 meeting. Continuing Education was previously audited in 1984.

In March 1996, the Bureau of State Audits issued a report of the Continuing Education program at one of our CSU campuses. This report raised a number of issues that have systemwide policy implications. The primary audit findings addressed operational relationships between the campus and its foundation and various non-compliance issues with CSU policy. A CSU task force was subsequently established in May 1996 to review the audit findings and policies and statutes impacting the Continuing Education program. In February 1997, the Senior Vice Chancellor, Business and Finance, issued the "CSU Task Force Report on Continuing Education" to all campus presidents.

In addition, the CSU Commission on the Extended University hired a consultant to clarify the implications of the March 1996 State Bureau of Audit report on continuing education. In September 1997, the consultant issued a report titled "Managing Continuing Education Fiscal Accounts" to the members of the commission. The consultant report was subsequently distributed to the various CSU EE/CE Deans and Directors by the State University Dean of Extended Education.

Some CSU campuses refer to the Continuing Education program as Extended Education or other similar titles. Throughout this report, we will refer to the program as continuing education. At California State University, Fresno (CSUF), the Division of Extended Education (EE) manages campus sponsored continuing education programs. In addition, academic departments offer and manage CSUF Foundation sponsored non-credit continuing education programs and courses.

OPINION

We visited the California State University, Fresno campus from June 29, 1998, through August 27, 1998, and audited the procedures in effect at that time.

We found that, with the exception of the items noted in the Executive Summary and in the details of the report, compliance with state, CSU and campus policies and procedures was satisfactory.

The objective of this report is to identify and mitigate issues that affect the administration of Continuing Education programs and CERF operations. If such issues are not corrected, the effectiveness of policies and procedures may be negatively impacted.

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CONTINUING EDUCATION PROGRAMS AND ADMINISTRATION

FISCAL SERVICES [6]

Continuing education retained earnings were being maintained in the CSU Fresno Foundation rather than in the continuing education revenue fund (CERF) state account. Maintaining continuing education funds in state accounts reduces the risk of inappropriate management of state funds and loss of interest and other revenues that are based on foundation overhead charges.

ACADEMIC DEPARTMENTS [7]

Campus procedures did not include a formalized review process to determine which academic department sponsored activities, such as conferences, workshops, and other self-supporting instructional programs, should be managed in cooperation with the Division of Extended Education (EE) and operated through the continuing education revenue fund (CERF). Establishing a formalized review process for academic department sponsored conferences, workshops, and other self-supporting instructional activity ensures that they are placed under appropriate management.

EXPENDITURES [8]

Continuing education funds maintained in the foundation were not always used for the support and development of self-supporting instructional programs. Maintaining continuing education funds in state accounts reduces the risk of inappropriate expenditures.

REVENUE DISTRIBUTION AND RETAINED EARNINGS

GENERAL FUND REIMBURSEMENT [9]

General fund reimbursements for support services provided by the campus to the Division of Extended Education (EE) and other self-supporting instructional programs operated through the foundation were not always completed and properly documented. Adequately controlling and documenting general fund reimbursement procedures ensures that the general fund is fully reimbursed for costs associated with continuing education.

REVENUE SHARING [11]

Revenue sharing rates for winter session, other special session, and non-credit extension programs were not properly documented. Proper documentation of revenue sharing rates reduces the risk of inappropriate revenue allocations and ensures that academic departments are fully compensated for the costs incurred in support of continuing education programs.

ENROLLMENT AND STUDENT RECORDS

FEE RECONCILIATION [12]

Continuing education fees were not being reconciled to enrollments. Reconciliation of continuing education fees to enrollments reduces the risk of errors or misappropriation of fees going undetected.

NON-DISCRIMINATION STATEMENT [13]

A non-discrimination statement was not included in extension program catalogs. Including the required non-discrimination statement ensures compliance with federal regulations.

COURSE SELECTION AND MANAGEMENT [13]

The Division of Extended Education (EE) did not have formalized procedures for either accepting or canceling courses for which losses are projected. Documenting the benefits of offering a course at a financial loss helps to ensure that the overall program remains self-supporting.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CONTINUING EDUCATION PROGRAMS AND ADMINISTRATION

FISCAL SERVICES

Continuing education retained earnings were being maintained in the CSU Fresno Foundation rather than in the continuing education revenue fund (CERF) state account.

The Division of Extended Education (EE) previously used the foundation to provide fiscal services for non-credit extension, graduate studies, travel and cultural programs without written agreements to define program sponsorship. Although these programs were transferred to the CERF effective Fall 1997, corresponding retained earnings continued to be maintained in the foundation. Retained earnings as of June 30, 1998, totaled \$481,220. The foundation retains all interest earnings on these funds and assesses a fiscal management fee.

Education Code §89704 states that revenue received from extension programs, special session and other self-supporting instructional programs shall be deposited to the Continuing Education Revenue Fund (CERF).

The CSU Task Force Report on Continuing Education recommends that ownership of a given program be clearly defined. This report stated, in part, that funds must be deposited in the CERF if it is a campus-owned program. The campus should not use its auxiliary as a bank.

The EE dean stated that continuing education funds held in foundation accounts had accumulated prior to the issuance of the new systemwide policy directive and should not be transferred to the CERF because the campus was operating in accordance with system policy at that time.

Maintaining continuing education funds in the foundation increases the risk of inappropriate expenditures of state funds and loss of interest and other revenue that are based on foundation overhead charges.

Recommendation 1

We recommend that the campus transfer the balances from the EE foundation accounts to the CERF.

Campus Response

We concur. We will transfer Division of Extended Education (EE) funds in the Foundation to a new CERF trust account established in accordance with AB 2812 by June 30, 1999.

ACADEMIC DEPARTMENTS

Campus procedures did not include a formalized review process to determine which academic department sponsored activities, such as conferences, workshops, and other self-supporting instructional programs, should be managed in cooperation with the Division of Extended Education (EE) and operated through the continuing education revenue fund (CERF).

A review of ten academic department accounts maintained at the CSU Fresno Foundation disclosed revenue from four self-supporting instructional programs and the commingling of revenue from instructional fees with donations and grants. In addition, two of the programs granted course credit.

Education Code §89704 requires that revenue received from CSU extension programs, special session, and other self-supporting instructional programs be deposited in the CERF.

The CSU Task Force Report on Continuing Education recommended that ownership of a given program be clearly defined. If it is a campus owned program, funds must be deposited in the CERF. Any services required from an auxiliary should be properly documented in a written agreement. The report also stated that, due to accreditation issues and the lack of Title 5 authority to offer credit instruction, auxiliaries should not be engaging in “credit” courses.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control shall include an effective system of internal review.

The EE dean stated that because of the decentralized system of providing extension instructional programs, she has no oversight responsibility for academic department extension activities. She confirmed that two programs had offered credit instruction courses with revenues deposited to the foundation and that all revenue from these courses will be deposited in the CERF effective Fall 1998. The Dean of the School of Social Sciences stated that all funds from the Victim Services Certificate program previously deposited into a foundation account would be deposited into the CERF in the future.

Not establishing a formalized review process for academic department sponsored conferences, workshops, and other self-supporting instructional courses increases the risk of activities being improperly managed.

Recommendation 2

We recommend that the campus:

- a. establish procedures to ensure that all academic department sponsored activities such as conferences, workshops and other self-supporting instructional courses are appropriately managed;

- b. analyze all academic department accounts maintained at the foundation and transfer balances that appropriately belong to the CERF; and
- c. deposit and retain all future revenue from credit granting and other self-supporting instructional activities directly into the CERF.

Campus Response

We concur. A new Foundation trust account application form has been developed that all current and future Foundation trust account holders will be required to complete and submit. The new form is designed to identify trust accounts into which revenues from continuing education programs are deposited. With the information collected we will identify programs that should be managed by EE and trust account balances which should be transferred to CERF. These tasks will be completed by June 30, 1999.

EXPENDITURES

Continuing education funds maintained in the foundation were not always used for the support and development of self-supporting instructional programs.

We noted that a \$150,000 loan to the CSU Fresno Association for a developmental study of the potential uses of a sixty-nine acre parcel of campus land had been made from Division of Extended Education (EE) funds maintained in the foundation.

Education Code §89704 states that all revenue received from extension programs, special session, and other self-supporting instructional programs are appropriated for the support and development of self-supporting instructional programs of the CSU.

CSU directive BA 91-13, *Revised Policy on the Management of the Continuing Education Revenue Fund*, dated August 7, 1991, includes specific criteria for the expenditure of CERF monies and states that funds used to support a project that will benefit both continuing education and state support programs must benefit continuing education commensurate with the level of CERF expenditures.

The EE dean stated that future space consideration would be given to EE as justification for the loan.

Not establishing adequate controls over continuing education monies increases the risk of inappropriate expenditures.

Recommendation 3

We recommend that the campus strengthen procedures to ensure that expenditures of continuing education funds are for appropriate purposes and expedite repayment of the loan.

Campus Response

The loan referenced in the audit report was used to conduct a developmental study related to the planned usage of campus land for the development of a regional convention and entertainment facility. EE expected to benefit from use of state-of-the-art meeting facilities in the development, in which it was anticipated that continuing education courses would be offered. EE did not view the loan as an expenditure, but as an investment. The original \$150,000 loan provides interest income at the rate of 6% annually. The unpaid principal balance of \$50,000 is due September 1, 1999,

The campus believes that existing controls over continuing education fund expenditures are adequate.

REVENUE DISTRIBUTION AND RETAINED EARNINGS

GENERAL FUND REIMBURSEMENT

General fund reimbursements for support services provided by the campus to the Division of Extended Education (EE) and other self-supporting instructional programs operated through the foundation were not always completed and properly documented. We noted that:

- General fund reimbursements for campus administrative support services are provided via allocations of 10%, 12.5%, and 4% of EE special session, concurrent enrollment, and non-credit extension activities, respectively. Total reimbursement meets CSU directive requirements. However, there was no written agreement between the campus and EE containing the basis and rationale for the valuations of service.
- General fund reimbursement for summer session support services is provided via an allocation of 10% of EE summer session revenue. Total reimbursement meets CSU directive requirements. However, there was no written agreement between the campus and EE containing the basis and rationale for the valuation of services.
- EE allocates 37.5% of net concurrent enrollment revenue to the academic schools. However, there was no documentation to support the allocation method being used.
- The general fund is not fully reimbursed for costs incurred on behalf of the American English Institute (AEI) which is operated through the foundation. The program is physically located on campus but does not pay space usage or utility costs. The AEI program memorandum of understanding (MOU) states that the foundation will pay for university property used and share costs for administrative and program delivery space. However, the campus is only being reimbursed for telephone usage.

CSU directive BP 67-73, *Reimbursement for State Services Rendered Extension Program Activities*, dated November 28, 1967, and SUAM §1508.02.04 state that 4% of total extension program revenues should be reimbursed to the general fund for support services. Support services include accounting,

personnel, cashiering, budgeting, payroll, purchasing, the records areas of admissions and records, and administrative computing support.

CSU directive BA 73-13, *Support Services in Summer Session Budget*, dated April 13, 1973 and SUAM §1508.02.03 state that, depending on the amount of revenues generated, 8% to 12% of summer session revenue should be reimbursed to the general fund for support services. Support services include all personal services, operating expenses, and equipment included in academic support, student services, and institutional support, and all personal services for administration at the department and school level.

Executive Order No. 298, *Regulations Governing Extension Student Enrollment in Regular Session Offerings*, states that the allocation of concurrent enrollment revenue shall be determined by the campus president following consultation with appropriate faculty representatives.

CSU directive BA 83-30, *Policy on Chargeable Services to Self-Supporting Operations*, dated December 28, 1983, states that funds provided from the general fund may be used to provide support for continuing education if there is a recovery of the cost of such support. In the absence of specific CSU policy, recovery for the cost of support shall include the incremental costs of providing the support. If trade-offs are appropriate, they shall be clearly documented, valued in accordance with supportable cost studies, and otherwise not in conflict with state, system or campus regulations. Consensus should be reached between service provider and recipient as to the service levels and method of calculation. Support provided shall be in accordance with appropriate written agreements that include the basis and rationale for the valuation. The agreements should be on file in the campus business office and available for audit.

The EE dean stated that allocations to the campus and academic departments were based on historical rates with periodic incremental adjustments. Campus officials were not aware of the general fund cost reimbursements documented in the MOU.

Not establishing adequate controls and documentation over general fund reimbursement procedures could result in the general fund not being fully compensated for support provided to continuing education programs and reduce working capital available to the campus.

Recommendation 4

We recommend that the campus:

- a. strengthen procedures to ensure that all negotiated general fund reimbursements are received;
- b. determine the amount of services provided to EE and other self-supporting programs by each campus service area provider, taking into consideration any specific CSU policy;

- c. prepare appropriate written agreements containing the basis and rationale for the valuation of services; and
- d. maintain the written agreements on file in the campus business office.

Campus Response

We concur. A review of general fund reimbursements for support services provided by the campus will be conducted in the Spring 1999 semester. Written agreements outlining the basis and rationale for the valuation of services will be prepared. We anticipate that these tasks will be completed by September 30, 1999.

REVENUE SHARING

Revenue sharing rates for winter session, other special session, and non-credit extension programs were not properly documented.

The Division of Extended Education (EE) allocates 60% of excess enrollment revenue from credit courses of its winter and other special sessions to campus academic departments.

CSU policy does not address revenue sharing to academic departments for costs incurred in support of programs other than summer session.

CSU directive BA 83-30, *Policy on Chargeable Services to Self-Supporting Operations*, dated December 28, 1983, states that funds provided from the general fund may be used to provide support for continuing education if there is a recovery of the cost of such support. In the absence of specific CSU policy, recovery for the cost of support shall include the incremental costs of providing the support. If trade-offs are appropriate, they shall be clearly documented, valued in accordance with supportable cost studies, and otherwise not in conflict with state, system or campus regulations. Consensus should be reached between service provider and recipient as to the service levels and method of calculation. Support provided shall be in accordance with appropriate written agreements that include the basis and rationale for the valuation. The agreements should be on file in the campus business office and available for audit.

The EE dean stated that the revenue sharing rate back to academic departments for credit courses was in place prior to her appointment.

Not documenting winter session and other special session revenue sharing procedures could result in academic schools not being fully compensated for costs incurred in support of such programs and result in misunderstandings between academic departments and EE.

Recommendation 5

We recommend that the campus:

- a. establish formalized procedures for determining winter session and other special session revenue sharing rates;
- b. prepare appropriate written agreements containing the basis and rationale for the valuation; and
- c. maintain the written agreements on file in the campus business office.

Campus Response

We concur. EE will establish a formal procedure for determining revenue sharing with academic departments and schools. These procedures will be documented in appropriate written agreements and maintained in the campus business office. These tasks will be completed by June 30, 1999.

ENROLLMENT AND STUDENT RECORDS

FEE RECONCILIATION

Continuing education fees were not being reconciled to enrollments.

SUAM §3821 states that the chief business officer shall establish control procedures to ensure that all monies due are collected and are safeguarded, deposited, reconciled, remitted, and invested in a timely manner.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control shall include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenue, and expenditures.

The student financial services manager stated that, due to the number of various continuing education fees, her staff is unable to carry out their regular cashiering duties and perform a reconciliation of continuing education course payments to enrollments. She further stated that once the student record system upgrade is completed, the capability would exist to perform such reconciliations online.

By not reconciling fees, errors or misappropriation of fees may go undetected.

Recommendation 6

We recommend that the campus develop procedures to reconcile continuing education fee collections to enrollments.

Campus Response

We concur. Representatives from Information Technology Services (ITS), Accounting Services and EE will meet in January 1999 to determine what ITS resources will be required to prepare the reconciliation. Subject to the availability of those resources, the reconciliation should be completed by September 30, 1999.

NON-DISCRIMINATION STATEMENT

A non-discrimination statement was not included in extension program catalogs.

CSU directive EE81-25/SA 81-46, *Disabled Persons Enrolled in Summer Session, Special Session, and Extension Programs*, dated August 6, 1981, states that extension program bulletins should contain a non-discrimination statement as required by federal regulations.

The Division of Extended Education (EE) dean indicated that she was not aware of the non-compliance with the requirement.

Failure to include the disclosure increases the risk of non-compliance with federal regulations.

Recommendation 7

We recommend that the campus ensure that a non-discrimination statement is included in all extension program catalogs.

Campus Response

We concur. The omission of information regarding disabled student services from the Extension Catalog was an oversight. Corrective action was taken immediately to ensure that all appropriate non-discrimination disclosures were made in the Fall 1998 Extension Catalog. This matter has been resolved.

COURSE SELECTION AND MANAGEMENT

The Division of Extended Education (EE) did not have formalized procedures for either accepting or canceling courses for which losses are projected.

The CSU Task Force Report on Continuing Education recommended that, if a specific course is not self supporting, the benefits of offering a course at a financial loss should be documented.

Education Code §89708 requires special session and other instructional programs to be self supporting.

The EE dean stated that the decision to cancel a course generally is made by the instructor. However, EE does review course offerings for low enrollments retrospectively.

Not documenting the benefits of offering a course at a financial loss may have an impact on whether a program is self-supporting. The lack of formal review procedures increases the risk of a course being offered that should be canceled.

Recommendation 8

We recommend that the campus properly document the justification for offering a course at a financial loss.

Campus Response

We concur. The campus will develop a policy requiring documentation of the justification for offering a program at a financial loss. This new policy will be put in place by June 30, 1999.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
John D. Welty	President
Josie Almeida	Manager, Student Financial Services
Audrey Anderson	Dean, Division of Extended Education
Janice Arrants	Director, Special Session Program, Division of Extended Education
Joe Bezerra	Director, California Agricultural Technology Institute (CATI)
Cheryl Burger	Accounting Technician
Ed Bulinski	Budget Officer
Benjamin Cuellar	Dean, School of Health and Human Services
Ellen Gruenbaum	Dean, School of Social Sciences
Lolita Harbit	Director, Non-Credit Programs, Division of Extended Education
Lynn Hemink	Director, CSU Fresno Auxiliary Corporation
Shirley Lindal	Accounting Technician
Dennis Livzey	Manager, General Accounting
Randy Larson	Director of Financial Services, CSU Fresno Auxiliary Corporation
Margaret Martinez	Accounting Technician
Robert Monke	Associate Dean, School of Education and Human Development
Michael Ortiz	Provost and Vice President for Academic Affairs ad interim
Chris Robinson	Internal Auditor
Judy Sakaki	Dean of Student Affairs
Ken Shipley	Associate Dean, School of Health and Human Services
Vida Samiian	Associate Dean, School of Arts and Humanities
Gail Tompkins	Director, San Joaquin Valley Writing Project
Diane Threlkeld	Director, University Business Center
Graham Thurgood	Director, American Language Institute
Robert Vega	Director, Accounting Services
Vivian Vidoli	Dean, Graduate Studies
Pat Work	Manager, Accounts Receivables/Payables