

**CONTINUING EDUCATION**  
**CALIFORNIA STATE UNIVERSITY,**  
**SAN MARCOS**

**Report Number 99-18**  
**December 15, 1999**

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## **ABBREVIATIONS**

ALCI	American Language Cultural Institute
CE	Continuing Education
CERF	Continuing Education Revenue Fund
CEU	Continuing Education Unit
CSU	California State University
CSUSM	California State University, San Marcos
EE	Extended Education
ES	Extended Studies
GAAP	Generally Accepted Accounting Principles
MBA	Master in Business Administration
MOU	Memorandum of Understanding
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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## INTRODUCTION

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### PURPOSE

Our overall audit objective was to: ascertain the effectiveness of policies and procedures related to the administration of Continuing Education programs, determine the adequacy of controls over Continuing Education Revenue Fund (CERF) operations, and verify whether continuing education trust accounts have been properly established.

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;
- ▶  fund integrity is maintained between continuing education, state and auxiliary funds;
- ▶ 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
- ▶  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, were 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 “Notwithstanding any other provision of law to the contrary, revenues from extension programs, special sessions, and other self-supporting instructional programs, including but not limited to, fees and charges required by the trustees, may be transmitted to the Treasurer and, if transmitted, shall be deposited by that officer in the State Treasury to the credit of the State University Continuing Education Revenue Fund.” Prior to January 1, 1999, the revenues were required to be transmitted to the Treasurer.

In late 1998, the 1998 Higher Education Omnibus Act (AB 2812) was enacted. AB 2812 permitted continuing education revenues to be deposited in trust accounts instead of the CERF. The legislation amended Education Code § 89704 as mentioned above and Education Code § 89721 as follows:

The California Education Code § 89721 states in part that, effective January 1, 1999, “Notwithstanding any other provision of law to the contrary, revenues received for extension programs, special sessions, and other self-supporting instructional programs shall be deposited into and maintained in local trust accounts or in trust accounts in accordance with Sections 16305 to 16305.7, inclusive, of the Government Code, or in the California State University Trust Fund.”

June 1998 to date was the primary period of review.

Our focus involved a wide variety of issues dealing with continuing education 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;
- ▶ □ 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.

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## 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, discussed the report at the Executive Council meeting on February 11, 1997, and indicated that the campuses would be expected to abide by the recommendations contained therein.

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, San Marcos, the Extended Studies Office manages the Continuing Education program.

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## OPINION

We visited the California State University, San Marcos campus from August 30, 1999, through October 1, 1999, 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.

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## **EXECUTIVE SUMMARY**

The purpose of this section is to provide management with an overview of conditions requiring their 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 [6]**

Extended Studies (ES) did not have a comprehensive policy and procedures manual to communicate control requirements to all ES personnel. Internal controls are strengthened when policies and procedures are documented and communicated to employees.

### **REVENUE DISTRIBUTION AND RETAINED EARNINGS [6]**

#### **GENERAL FUND REIMBURSEMENT [6]**

General fund reimbursements for support services provided by campus administrative and academic departments to Extended Studies and the MBA program were not properly documented. Documenting general fund reimbursement procedures ensures that the general fund is fully reimbursed for costs associated with continuing education.

#### **REVENUE SHARING [8]**

Revenue sharing rates were not properly documented. Proper documentation of revenue sharing rates not only ensures that departments are fully compensated for costs incurred to support continuing education programs, but also decreases the risk of misunderstandings concerning revenue allocations.

## **FEE SETTING, COLLECTION AND RECONCILIATION [9]**

### **FEE RECONCILIATION/REFUNDS [9]**

Internal controls over revenue reconciliation and refunds were not adequate. Maintaining adequate controls over this area helps to ensure that all revenues are recorded, errors or misappropriations are detected, and refunds are proper.

### **FEE APPROVAL [11]**

Extended Studies (ES) tuition fees for non-credit courses were not submitted to the campus fee advisory committee and properly approved. Internal controls over fees are strengthened when they are properly reviewed and approved.

## **FACULTY/INSTRUCTOR SELECTION AND SALARIES [11]**

Additional compensation to faculty teaching extension courses in the MBA program was not properly approved. Internal controls over faculty pay are strengthened when modifications to CSU salary schedules are supported by appropriate written approval.

## **ENROLLMENT AND STUDENT RECORDS [12]**

A non-discrimination statement and information regarding the disabled students services office were not included in all Extended Studies (ES) catalogs/class bulletins. Including the required statements in all catalogs ensures compliance with federal regulations and provides disabled students with information regarding required assistance.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CONTINUING EDUCATION PROGRAMS AND ADMINISTRATION**

Extended Studies (ES) did not have a comprehensive policy and procedures manual to communicate control requirements to all ES personnel.

SAM §20003 states that the nonexistence of policy and procedural or operational manuals is a danger signal of a vulnerable control system.

The ES dean recognized the need to develop a comprehensive policy and procedures manual but indicated that, due to staffing levels, it was a low priority.

Internal controls can be compromised if they are not properly documented and communicated to campus employees.

#### **Recommendation 1**

We recommend that ES complete and distribute written policies and procedures to all ES personnel.

#### **Campus Response**

We concur with this recommendation. A Handbook of Extended Studies Policies and Procedures, prepared by Extended Studies staff and reviewed by the Vice President for Academic Affairs in consultation with appropriate campus administrators, will be completed and disseminated by June 2, 2000.

### **REVENUE DISTRIBUTION AND RETAINED EARNINGS**

#### **GENERAL FUND REIMBURSEMENT**

General fund reimbursements for support services provided by campus administrative and academic departments to Extended Studies (ES) and the MBA program were not properly documented. We noted that:

- ▶ General fund reimbursement for campus administrative services, including summer session, is provided via an allocation of 10% of ES revenue to the offices of academic affairs; enrollment services; curriculum services; computing services; and library & information services. Revenue from contract courses is excluded when calculating the allocations to computing and library & information services. Although total reimbursements meet and exceed CSU directive requirements, no written agreements exist between the service providers and ES containing the basis and rationale for the valuation of services.

- ▶ General fund reimbursement for campus administrative services for summer and winter MBA program sessions is provided via the above mentioned 10% allocation. In addition, 3% of fall and spring MBA program revenue is allocated to the Office of the Executive Vice President for Administration Services. However, no written agreement existed to define the basis and rationale for the valuation of MBA program services.
- ▶ ES allocates 10% of concurrent enrollment revenue to the offices mentioned above for campus support services. In addition, 25% of concurrent enrollment revenue is allocated directly to the general fund, and colleges receive allocations based on the number of students and units. However, no documentation existed to support the concurrent enrollment allocation method.

CSU directive BP 67-73, *Reimbursement for State Services Rendered Extension Program Activities*, dated November 28, 1967, attached schedule 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 area 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. Based on CSU San Marcos summer session revenue, a minimum of 12% of revenue should be reimbursed to the general fund. 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*, dated August 1, 1978, 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 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 ES dean stated that the current reimbursement rates were established prior to his appointment and written supporting documentation had not been considered.

A lack of documentation for reimbursement procedures could result in the general fund not being fully compensated for support provided to continuing education in addition to reducing working capital available to the campus.

### **Recommendation 2**

We recommend that the campus:

- a. determine the amount of services provided to ES and the MBA program by each campus service area provider, taking into consideration any specific CSU policy;
- b. prepare appropriate written agreements containing the basis and rationale for the valuation of services; and
- c. maintain the written agreements on file in the campus business office.

### **Campus Response**

We concur with these audit recommendations. By June 2, 2000 the campus will comply with the recommendations by developing a general fund cost reimbursement model within Extended Studies.

## **REVENUE SHARING**

Revenue sharing rates were not properly documented.

Extended Studies (ES) shares special session and contract course revenues with academic schools via a 2% allocation of revenue and amounts based on based on the number of students and units, respectively. In addition, 20% of MBA program revenue is shared with ES. No formalized written agreements existed to define the basis and rationale for the revenue sharing.

Except for summer session programs, CSU policy does not address revenue sharing to academic departments for costs incurred in support of continuing education programs.

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 a specific CSU policy, recovery for the cost of support shall include the incremental costs of providing the support. 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 ES dean stated that the practice of assigning revenue sharing rates to academic departments was based on an informal understanding between ES and the various departments; however, he agreed that written agreements would be appropriate.

Not documenting revenue sharing rates could result in departments not being fully compensated for costs incurred in support of ES and MBA programs and misunderstandings between academic departments and ES.

### **Recommendation 3**

We recommend that the campus:

- a. establish formalized procedures for determining 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 with these audit recommendations. The campus would like to note that by citing BA 83-30, this finding raises of two distinct issues: 1) general fund cost recovery associated with BA 83-30, and 2) surplus revenue sharing.

General fund cost recovery compliance will be addressed by June 2, 2000 through action taken in response to Recommendation #2.

Surplus revenue sharing methodologies and agreements will be determined and adopted by June 2, 2000.

## **FEE SETTING, COLLECTION AND RECONCILIATION**

### **FEE RECONCILIATION/REFUNDS**

Internal controls over revenue reconciliation and refunds were not adequate. We noted:

- ▶ Extended Studies (ES) had not reconciled non-credit course fees to student enrollments during fiscal 1998/99.
- ▶ The refund policy for ES and the summer and winter MBA program sessions was not in compliance with Title 5 and CSU policy. The current formula used by these departments to determine the amount of refund did not meet Title 5 and CSU systemwide requirements.

- ▶ There was an inadequate separation of duties within ES because the registration assistant opens the mail, processes student registration payments and requests for refunds. In addition, the program assistant in the Center for Advanced Computer Technology processes student registrations and refunds.

SUAM §3821 requires 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.

Title 5 §41802 and CSU directive BA 89-10 provide specific refund formulas for special session and extension course tuition fees.

SAM §20003 requires that an adequate system of record keeping and internal control procedures be maintained to provide effective accounting control over revenues and expenditures.

SAM §8080 requires an adequate separation of duties so that no one person processes cash receipts and refunds.

The ES budget manager stated that the ES staff believed that the reports received from the foundation on non-credit course fee activity were accurate. The MBA program manager stated that since the program refund policy was more lenient than the Title 5 regulations, she believed that it was acceptable. The ES dean stated that a recent department reorganization had contributed to separation of duties problem.

Inadequate controls over revenue reconciliation and refunds could prevent errors or misappropriations from being detected and result in improper refunds.

#### **Recommendation 4**

We recommend that the campus:

- a. develop procedures to reconcile revenue received for non-credit courses to the revenues recorded in the CERF accounting records;
- b. revise the ES and MBA refund policy in accordance with Title 5; and
- c. establish an adequate separation of duties within ES.

#### **Campus Response**

We concur with these recommendations. Extended Studies and Accounting will develop and adopt the recommended procedures, policies, and separation of duties by June 2, 2000.

## **FEE APPROVAL**

Extended Studies (ES) tuition fees for non-credit courses were not submitted to the campus fee advisory committee and properly approved.

Executive Order No. 661, *Fees, Rates, and Charges*, dated August 23, 1996, requires each campus to establish a fee advisory committee to provide advice to the campus president regarding proposed fee actions and delegates the authority to approve adjustments to campus user fees to the campus president.

The ES dean believed that Executive Order No. 661 did not apply to non-credit courses.

Internal controls over course fees are compromised when fee actions are not properly reviewed and approved.

### **Recommendation 5**

We recommend that the campus establish procedures to ensure that ES non-credit course fees are submitted to the fee advisory committee and properly approved.

### **Campus Response**

We concur with this audit recommendation. Extended Studies will develop the internal procedures to assure timely submission to the fee advisory committee (completion date: June 2, 2000). The campus has already established written operating procedures for its fee advisory committee.

## **FACULTY/INSTRUCTOR SELECTION AND SALARIES**

Additional compensation to faculty teaching extension courses in the MBA program was not properly approved.

Article 21.7 of the Collective Bargaining Agreement between the CSU Board of Trustees and the California Faculty Association, for October 4, 1995 through June 30, 1998 and for July 1, 1998 through June 30, 2001 states that the salary of a faculty unit employee appointed for summer and special sessions shall be determined by the President.

The MBA program coordinator stated that the Vice President for Academic Affairs had not signed the faculty compensation agreement.

Internal controls over faculty pay are compromised when modifications to CSU salary schedules are not properly supported by appropriate written approval.

### **Recommendation 6**

We recommend that the campus strengthen procedures to ensure that campus president approval is obtained for modifications to CSU salary schedules.

### **Campus Response**

Article 21.7 of the Collective Bargaining Agreement states:

"The salary of a faculty unit employee appointed for summer and special sessions shall be determined by the President at a rate **equal to or above** that shown in Appendix C [emphasis added]. Such rate shall be adjusted annually by any increase adjustments in the general faculty salary scale in the preceding academic year. If the course to which a faculty unit employee has been assigned does not meet minimum enrollment as indicated in the salary schedule, the faculty unit employee may receive a reduced salary in accordance with Appendix C."

The campus believes that this Article establishes minimum salary rates for instructors in special sessions; thus, in setting instructors' actual salaries, the campus has complied with the terms of the Article (i.e., the campus has not engaged in modifications to CSU salary schedules).

The campus agrees that stronger approval procedures are needed. The Vice President for Academic Affairs will establish and implement forms and procedural documentation to that effect by June 2, 2000.

## **ENROLLMENT AND STUDENT RECORDS**

A non-discrimination statement and information regarding the disabled students services office were not included in all Extended Studies (ES) catalogs/class bulletins.

CSU memo EE 81-25/SA 81-46, *Disabled Persons Enrolled in Summer Session, Special Session, and Extension Programs*, dated August 6, 1981, states that all general extension program bulletins should contain a non-discrimination statement as required by federal regulations. All applications and registration forms should contain contact information for the disabled student services office.

The ES dean stated that the omissions were an oversight. Failure to include the disclosures increases the risk of non-compliance with federal regulations and hinders disabled students in obtaining required assistance.

### **Recommendation 7**

We recommend that the campus ensure that a non-discrimination statement and information regarding the disabled students services office are included in all ES catalogs/class bulletins.

### **Campus Response**

This recommendation has been adopted and implemented through internal written policy and procedure as well as the preparation and distribution to staff of a standard, "cut and paste" statement for use in ES catalogs and class bulletins.

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## **APPENDIX A: PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
Dr. Alexander Gonzalez	President
David Barsky	Associate Vice President for Academic Programs
Michael Bell	Administrative Analyst, Academic Affairs
Kate Bradley	Coordinator, Community Education Programs
Barbara Dovenbarger	University Controller
Deborah Davis	Financial Accounting Supervisor, CSUSM Foundation
Dulce Dorado	Program Assistant/Advisor, American Language Cultural Institute
Kiera Friedrich	MBA Program Manager
Tricia Frady	Accounts Receivable Lead
Marti Gray	Executive Director, CSUSM Foundation
Michael Gray	General Ledger Accountant
Randy Helfond	General Ledger Supervisor
Tricia Henlon	Budget Manager, Extended Studies
Cherine Heckman	Director, Registration and Records
Rosemary Henk	Accounting Assistant
Janet Jubran	Assistant Dean, Extended Studies
Richard Karas	Vice President, Academic Affairs
Richard Loucks	Assistant Director, Accounting Services
Gary Means	Dean, Extended Studies
Norm Nicholson	Dean, Instructional & Information Technologies
Richard Riehl	Director, Enrollment Services
Bryana Robey	Registration Specialist
Greg Svatora	Business Manager, CSUSM Foundation
Paul Tiglao	Supervising Cashier
Kathleen Watson	Interim Dean, College of Business
Sally Wing	Program Assistant, Extended Studies