CONTINUING EDUCATION

SYSTEMWIDE

Report Number 05-13
May 19, 2006

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ABBREVIATIONS

AB  Assembly Bill
AD  Accounting Department, Chancellor’s Office
BA  Business Affairs
CABO Chief Administrators/Business Officers
CE  Continuing Education
CERF Continuing Education Revenue Fund
CEU Continuing Education Unit
CFO  Chief Financial Officer
CO  Chancellor’s Office
CSU  California State University
EO  Executive Order
FIRMS Financial Information Record Management System
FTES Full-Time Equivalent Students
FY  Fiscal Year
GC  Government Code
IC  Indirect Cost
LAIF Local Agency Investment Fund
MOU Memorandum of Understanding
NOAT Notice of Accounting Transaction
RCE Center for Regional and Continuing Education
RFIN Resolution of the Committee on Finance
SAM State Administrative Manual
SMIF Surplus Money Investment Fund
SUAM State University Administrative Manual
SWIFT Systemwide Investment Fund Trust
UCES University College and Extension Services
UEE University Extended Education
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2002, the Board of Trustees, at its January 2005 meeting, directed that Continuing Education be reviewed. Continuing Education was last audited in 1998 and 1999.

We visited seven campuses from March 21, 2005, through December 2, 2005, and audited the procedures in effect at that time. Campus specific findings and recommendations have been discussed and reported individually.

In our opinion, significant aspects of the continuing education program were operating programmatically in accordance with systemwide policies and procedural requirements. However, from a systemwide financial management perspective, improvements were needed in the justification and/or reduction of reserves; development of specific policies and procedures for handling negative continuing education accounts; matching of indirect cost allocations with amounts incurred by the campuses in the provision of services; and the creation of separation between the campuses and non-credit continuing education programs owned by auxiliary organizations. Further, controls over continuing education cash collections and revenue reconciliations needed to be strengthened.

The following summary provides 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 ADMINISTRATION [7]

The California State University (CSU) had accumulated large continuing education reserves without commensurate improvements in spend-down plans or policy alternatives for campuses with deficits. A possible contributing factor to the reserve accumulation was cost allocation plans that were either non-existent, untimely, inadequately supported, lacking formal approval, and/or not monitored. Additionally, four CSU campuses retained substantial continuing education funds in the continuing education revenue fund, thereby eliminating investment options and higher rates of return available through CSU investments with Met West.

BUSINESS MODEL/CURRICULUM [13]

Promotional materials for certain self-support continuing education programs offered by auxiliary organizations inappropriately associated the programs with the campus at four of the seven campuses visited.

FINANCIAL MANAGEMENT [15]

Cash control weaknesses were found at continuing education cashiering areas at five of the seven campuses visited. In addition, continuing education revenue reconciliations were incomplete or inadequately reviewed at most campuses.
INTRODUCTION

BACKGROUND

The State University Administrative Manual §3103 describes continuing education, in part, as follows:

The California State University (CSU) has been involved in continuing education since 1932, when Fresno State College established the system’s first extension program. Originally comprising only in-service instruction for school teachers, continuing education now provides an increasingly broad spectrum of services to a large number of persons who seek advanced training to help them increase their occupational competency or otherwise enrich their lives.

Continuing education encompasses such activities as extension, summer session, non-credit instructional activities, grants for community services and development, foreign study, concurrent enrollment, and external degree programs. The continuing education program includes credit and non-credit courses offered off campus as well as on campus. These courses may be part of a structured external degree program, may count toward a conventional degree, may be part of a certificate/credential program, may be oriented to specific occupations, or may be offered in response to other special interests.

Continuing education revenues accrue from student fees paid for regular courses, workshops, conferences, short courses, independent study, contract courses, and external degree programs. Additional income is available from interest on surplus funds.

All campus net operating revenues accrue to campus reserves and are continuously available, without regard to fiscal year (FY), for future campus program expenses.

Continuing education also encompasses special sessions, which are described in Executive Order (EO) 802, Special Sessions, dated January 31, 2002, as a means whereby CSU instructional programs can be provided to matriculated students on a self-support basis at times and locations not supported by General Fund appropriations. Examples of special sessions include interim sessions between college year terms; programs of a continuing nature offered at military bases, correctional facilities, and other distant or isolated locations; and instructional programs for a specific client group.

On a systemwide basis, continuing education is administered by a state university dean for extended education who reports through an associate vice chancellor for academic affairs to the CSU executive vice chancellor and chief academic officer. Each campus typically has a continuing education dean or other person with a similar title generally reporting through academic affairs. The terms “continuing education” and “extended education” are considered synonymous.

At the campuses, auxiliary organizations might also be involved with continuing education and offer self-supporting instructional programs subject to the limitations in EO 919, Policy Governing Non-General Fund Receipts, dated October 15, 2004, which states, in part, that the courses are non-credit and the
auxiliary cannot use the CSU name or representation in any manner other than where the CSU is part of the auxiliary’s title.

Analytic Studies in the chancellor’s office publishes a statistical report relevant to continuing education entitled, “CSU College Year Enrollment for Matriculants in Self-Support Special Sessions.” Per EO 802, a matriculated student is a student who has, through normal procedures, been formally admitted to and enrolled at a CSU campus to pursue an authorized degree, credential, or certificate. An excerpt from two tables in the statistical report indicates that FY 2003/04 special session enrollments of full-time equivalent students (FTES) were as follows:

<table>
<thead>
<tr>
<th>Campus</th>
<th>FTES State-Support Matriculants</th>
<th>FTES Self-Support Matriculants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bakersfield</td>
<td>127.2</td>
<td>144.0</td>
</tr>
<tr>
<td>Channel Islands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chico</td>
<td>101.1</td>
<td></td>
</tr>
<tr>
<td>Dominguez Hills</td>
<td>398.4</td>
<td></td>
</tr>
<tr>
<td>East Bay</td>
<td>86.1</td>
<td>249.4</td>
</tr>
<tr>
<td>Fresno</td>
<td>312.2</td>
<td>12.8</td>
</tr>
<tr>
<td>Fullerton</td>
<td>348.9</td>
<td>36.8</td>
</tr>
<tr>
<td>Humboldt</td>
<td>16.0</td>
<td></td>
</tr>
<tr>
<td>Long Beach</td>
<td>392.5</td>
<td>247.7</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>34.8</td>
<td></td>
</tr>
<tr>
<td>Maritime Academy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monterey Bay</td>
<td>105.2</td>
<td></td>
</tr>
<tr>
<td>Northridge</td>
<td>955.4</td>
<td>58.0</td>
</tr>
<tr>
<td>Pomona</td>
<td>17.0</td>
<td>3.7</td>
</tr>
<tr>
<td>Sacramento</td>
<td>296.7</td>
<td>181.8</td>
</tr>
<tr>
<td>San Bernardino</td>
<td></td>
<td>2.1</td>
</tr>
<tr>
<td>San Diego</td>
<td>60.0</td>
<td>242.3</td>
</tr>
<tr>
<td>San Francisco</td>
<td>91.6</td>
<td>33.1</td>
</tr>
<tr>
<td>San José</td>
<td>183.7</td>
<td>513.9</td>
</tr>
<tr>
<td>San Luis Obispo</td>
<td>27.6</td>
<td></td>
</tr>
<tr>
<td>San Marcos</td>
<td>14.4</td>
<td></td>
</tr>
<tr>
<td>Sonoma</td>
<td>332.4</td>
<td>115.4</td>
</tr>
<tr>
<td>Stanislaus</td>
<td>7.7</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,908.9</strong></td>
<td><strong>1,841.0</strong></td>
</tr>
</tbody>
</table>
In late 1998, the 1998 Higher Education Omnibus Act (Assembly Bill - AB 2812) was enacted. AB 2812 permitted continuing education revenues to be deposited in trust accounts instead of the continuing education revenue fund (CERF) and amended Education Code §89704 and §89721. This action provided the CSU with additional flexibility and the advantage/capability to invest continuing education funds through trust in ways that would provide a higher rate of return. The CSU Investment Policy is described in the Resolution of the Committee on Finance (RFIN) 01-97-03. The basic difference is that funds in the CERF are part of the State Treasury, which only provides investment options in the Surplus Money Investment Fund and Local Agency Investment Fund. Trust funds have been invested mainly in the Met West program, which has three account options – short-term, medium-term, and long-term.

**PURPOSE**

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of Continuing Education and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

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

- Accountability for the continuing education function has been clearly defined and documented; and agreements/contracts, policies, and procedures are current, comprehensive, and aligned with relevant federal and state laws and regulations.

- Auxiliary organizations are involved in continuing education without offering academic course credits or identifying the CSU as the program provider.

- Continuing education fees are established in accordance with CSU directives, an appropriate strategy exists for development and management of CERF reserves, and controls over transfers to/from the CERF are adequate.

- Continuing education programs and courses are selected and delivered in accordance with CSU policies and state regulations, and degrees offered do not supplant state-supported degrees.

- Continuing education special sessions meet requisite CSU conditions, characteristics, and recordkeeping requirements; and out-of-state/country programs are managed in accordance with CSU policies.

- Continuing education program faculty selection processes ensure compliance with the CSU additional employment policy, and faculty compensation complies with CSU salary schedules, and collective bargaining provisions.

- Continuing education enrollment procedures, change of program, and maintenance of student records are adequate; and enrollment reporting is accurate and reliable for special sessions.
Continuing education systems are secure, and use of social security numbers for student identification in continuing education is limited in accordance with systemwide policy.

Non-matriculated, continuing education students have been allowed to enroll in state-supported courses only after meeting stipulated conditions.

Programs/courses that award continuing education units (CEUs) comply with national standards and systemwide requirements.

Internal control over continuing education cash receipts is adequate, accountability for program fees is established at the earliest possible time to prevent misappropriation of funds, and all collections are deposited intact or otherwise safeguarded in a timely manner.

Continuing education revenues are reconciled to enrollments, and procedures exist to appropriately manage continuing education receivables and collect bad checks and other debts owed.

Continuing education refund procedures ensure that all refunds are approved, accurately processed, and in compliance with campus policy.

Established procedures ensure that continuing education expenditures are made only for the support and development of self-supporting instructional programs of the CSU.

**SCOPE AND METHODOLOGY**

The proposed scope of the audit, as presented in Attachment B, Agenda Item 2 of the January 25-26, 2005, meeting of the Committee on Audit, stated that Continuing Education includes special sessions, extension programs, and other self-supporting instructional programs and operation of the CERF and related trust accounts. Potential impacts include loss of budgetary control, inappropriate subsidies, inaccurate reporting, and increased exposure to enforcement.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. Industrywide standards such as those by the Western Association of Schools and Colleges (Good Practices for Electronically Offered Degree and Certificate Programs) and the International Association for Continuing Education and Training (Criteria and Guidelines for Quality Continuing Education and Training Programs: The CEU and Other Measurement Units) were also considered. The audit review period was FY 2003/04 to date.
We focused primarily upon the internal administrative, compliance, and operational controls over continuing education management. Specifically, we reviewed and tested:

- Continuing education policies and procedures.
- Continuing education staffing and organization plans.
- The processes for planning, approving, and supervising continuing education activities.
- Continuing education programming decisions and selection of program offerings.
- Continuing education faculty-related matters.
- Continuing education enrollment, awarding of credit, and student recordkeeping.
- Management of continuing education funds and reserves.

During the course of the audit, we visited seven campuses: Chico, Fullerton, Long Beach, Los Angeles, Maritime Academy, Pomona, and San Marcos. We interviewed personnel and audited procedures in effect at that time.
OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

CONTINUING EDUCATION ADMINISTRATION

RESERVE ACCUMULATION

The California State University (CSU) had accumulated large continuing education reserves without commensurate improvements in spend-down plans or policy alternatives for campuses with deficits.

In the last five fiscal years (fiscal year (FY) 2000/01 to FY 2004/05), continuing education reserves had risen from $49.7 million to $68.9 million – an increase of 38.63%; reserves had changed from 32% of revenue to 42%.

<table>
<thead>
<tr>
<th>FY Ending 6/30/xx</th>
<th>Reserves</th>
<th>Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$49,685,164</td>
<td>$156,906,786</td>
</tr>
<tr>
<td>2002</td>
<td>$59,197,499</td>
<td>$162,192,485</td>
</tr>
<tr>
<td>2003</td>
<td>$55,152,628</td>
<td>$145,721,656</td>
</tr>
<tr>
<td>2004</td>
<td>$56,875,876</td>
<td>$130,021,930</td>
</tr>
<tr>
<td>2005</td>
<td>$68,853,587</td>
<td>$163,803,988</td>
</tr>
</tbody>
</table>

For a breakdown by campus, see Appendix B.

Spend-Down Planning

While the level of reserves at two of the seven campuses visited (Maritime Academy and Pomona) did not warrant a spend-down plan, both the specificity of the need for reserves and the quality of spend-down plans were less than adequate at three of the five other campuses. We frequently found large reserve line items without supporting calculations. For example, one common reason cited for the accumulation of reserves was a need for dedicated continuing education space. However, there was very little specificity when we pressed for details such as how much and what kind of space, where it might be located, how it would be acquired (i.e., purchase or renovate existing property, new construction, etc.), how much it would cost per square foot based on industry indexes, and when the space would be acquired.

At a meeting of the Commission on Extended Education on February 27, 2003, the chancellor cautioned against imprudent build-up of continuing education reserves. During the period mentioned above, when continuing education reserves were increasing, the CSU experienced decreased General Fund appropriations and was seeking executive branch and legislative support for the higher education compact with the governor.
The most recent edition of the *CSU Extended Education Policies and Operations Manual* eliminated the prior standard for reserve accumulation contained in Coded memorandum Business Affairs (BA) 91-13 (a maximum contingency reserve of $150,000 or 15% of the prior year program revenue subject to modification for major projects) and did not provide another alternative.

Whenever reserves accumulate to significant levels, there is an increased risk of the funds becoming an attractive target for budget reduction, particularly in lean periods. This practice is not without precedence at the CSU. In FY 1994/95, the legislative analyst recommended that $5 million in continuing education funds be used for instructional equipment replacement because such equipment is used, in part, by continuing education students. A somewhat analogous example in FY 1992/93 required the use of lottery endowment funds.

**Negative Account Balances**

Policies and procedures have not been developed to address continuing education deficits and options available if borrowing is not a viable alternative.

Commingling continuing education with other trust fund accounts can conceal long-term results and create opportunities for balancing accounts through unusual means not immediately obvious. While it was possible for a campus to recover from negative years, there was one campus that had been operating with negative accounts since FY 2001/02.

State University Administrative Manual (SUAM) §3710.01 states that each trust project must maintain a positive cash and fund balance, but it does not cover what to do if this does not happen.

Education Code §89760 states that the Trustees may transfer money from one special fund to another special fund or to the General Fund (but not from it) in order to meet the commitments of the CSU if the transferred monies are returned to the special fund of origin in time to fulfill the purposes of the special fund. However, there is nothing further to provide specifics on:

- How the transfers should be documented or recorded.
- How to proceed if there were negative fund balances and for one reason or another, special fund loans were not an option or would not be enough to cover the amount needed to bring the fund balance positive.

Lack of policy specificity concerning actions to be taken when continuing education trust fund accounts are negative causes confusion and can result in improper transactions.

**Recommendation 1**

We recommend that the chancellor’s office:

a. Establish reasonable thresholds and acceptable purposes for accumulation and use of continuing education reserves.
b. Take action to ensure that continuing education reserves are reduced to and maintained at appropriate levels.

c. Develop and communicate to the campuses specific policies and procedures describing the options available and the actions necessary to address negative account balances and deficits in continuing education revenue funds/trust accounts.

Management Response

We concur.

The chancellor’s office Business and Finance Division, in coordination with chief administrators/business officers (CABO), will develop and publish appropriate systemwide standards for the accumulation of continuing education program reserves, including procedures to correct deficit accounts.

Anticipated Completion Date: December 15, 2006

COST ALLOCATIONS

Cost allocation plans were either non-existent, untimely, inadequately supported, lacking formal approval, and/or not monitored.

We found that:

- A formal systemwide evaluation and update regarding Executive Order (EO) 753 implementation had not been performed since it was originally issued, and the EO did not specifically address several important considerations (as noted below).

- EO 753 had been inconsistently implemented as summarized in the following table:

<table>
<thead>
<tr>
<th>Campus</th>
<th>EO 753</th>
<th>FY 2004/05</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A  B  C  D  E</td>
<td>Estimated Indirect Costs (IC)</td>
</tr>
<tr>
<td>Chico</td>
<td>N  N  N  N  N</td>
<td>$0</td>
</tr>
<tr>
<td>Fullerton</td>
<td>N  N  N  N  N</td>
<td>$0</td>
</tr>
<tr>
<td>Long Beach</td>
<td>Y  Y  Y  Y  Y</td>
<td>$3,190,200</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>N  N  N  N  N</td>
<td>$881,500</td>
</tr>
<tr>
<td>Maritime Academy</td>
<td>N  N  N  N  N</td>
<td>$50,001</td>
</tr>
<tr>
<td>Pomona</td>
<td>N  N  N  N  N</td>
<td>$262,574</td>
</tr>
<tr>
<td>San Marcos</td>
<td>N  N  N  N  N</td>
<td>$179,261</td>
</tr>
</tbody>
</table>
A Did the campus prepare a written cost allocation plan on an annual basis that included all services received by CE?

B Was the cost allocation plan prepared on a timely basis – preferably prior to, but not later than the end of the period covered?

C Were the indirect cost allocations adequately supported by documentation that could be independently verified?

D Did the chief financial officer approve the indirect cost allocation plan and was this approval documented in writing?

E Was the campus able to demonstrate that plan assumptions, estimates, and projections had been monitored during the course of the year with adjustments made based on actual experiences?

Y = Yes   N = No

For maximum effectiveness, a planning document such as the one envisioned by EO 753 should be constructed in advance using assumptions, estimates, and projections as to what is expected to transpire in the coming year and should be completed and signed close to the beginning of the period covered. In order to keep the plan accurate, current, and as relevant as possible, it should incorporate the most recent information available. For the FY 2004/05 planning cycle, the most recent information would have been for FY 2003/04, and the plan would have been approved close to the beginning of July 2004. However, the current EO lacks deadlines and/or specific timing requirements for plan completion. Additionally, EO 753 does not specifically address monitoring throughout the year and adjusting the plan if the actual costs and experiences deviate from the plan even though it mentions the need for consistent reporting of costs incurred.

Education Code §89704(a) creates the continuing education revenue fund (CERF) and §89704(b) appropriates all CERF revenues, without regard to fiscal years, to the Trustees for the support and development of self-supporting instructional programs of the CSU.

EO 753, Allocation of Costs to Auxiliary Enterprises, dated July 28, 2000, states that auxiliary enterprises (such as continuing education) shall be charged the allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the university funded from the General Fund. Further, cost allocations shall be determined in accordance with a written cost allocation plan approved annually by the campus chief fiscal officer. The plan is supposed to be reasonable and provide consistent estimation, accumulation, and reporting of related costs.

In April 2003, the CSU Financial Officers Association issued a document entitled Guidelines for General Fund Cost Allocation Plans. This document added certain principles such as “all significant incremental costs should be included in the cost allocation plan” and steps such as “the cost allocation plan should quantify the costs being allocated and document the basis of the allocation and
any exchange of value recognized.” A reasonable cost allocation plan example is presented in Appendix C.

SUAM §3710.12 states that if funds are expended in the General Fund on behalf of a trust fund or project, the trust fund or project shall reimburse the General Fund in a timely fashion.

Government Code (GC) §13401 states that effective systems of internal accounting and administrative control are necessary to assure that state assets and funds are adequately safeguarded, produce reliable financial information, and are necessarily dynamic and must be continuously evaluated and improved, where necessary.

Lack of good cost allocation plans and processes and inconsistent implementation of EO 753 increases the risk that the General Fund is not fully reimbursed on a timely basis for support provided to auxiliary enterprises such as continuing education.

**Recommendation 2**

We recommend that the chancellor’s office:

a. Obtain copies of all campus EO 753 plans, analyze them for compliance with EO requirements, identify best practices and alternatives, and summarize the results for systemwide distribution.

b. Establish a process to periodically evaluate the acceptability and appropriateness of indirect costs allocated to continuing education programs.

**Management Response**

We concur.

The chancellor’s office Business and Finance Division will establish a systemwide “clearing house” for indirect cost allocation planning and policy development. After consultation with CABO, reporting processes will be implemented to collect and analyze annual campus indirect cost plans at the chancellor’s office.

Anticipated Completion Date: November 1, 2006

**CERF VS. TRUST**

Four CSU campuses retained substantial continuing education funds in the CERF and had forgone the opportunity to invest funds at higher rates of return through CSU investments with Met West.

In late 1998, the 1998 Higher Education Omnibus Act (Assembly Bill - AB 2812) was enacted. AB 2812 permitted continuing education revenues to be deposited in trust accounts instead of the CERF and amended Education Code §89704 and §89721. This action provided the CSU with additional flexibility and the advantage/capability to invest continuing education funds through trust
in ways that would provide a higher rate of return. The basic difference is that funds in the CERF are part of the State Treasury, which only provides investment options in the Surplus Money Investment Fund (SMIF) and Local Agency Investment Fund (LAIF). Trust funds have been invested mainly in the Met West program, which has three account options—short-term, medium-term, and long-term. When the AB 2812 authority was obtained, the CSU elected to make the deposit of funds to either the CERF or trust accounts optional based on whatever the individual campuses decided to do.

The interest income from investment of continuing education funds through the State Treasurer is distributed to the campuses quarterly through the chancellor’s office Accounting department (AD) via coded memorandums called Notice of Accounting Transaction (NOAT). Based on the more recent AD-NOAT distributions, it is clear that the preponderance of CSU campuses exercised the AB 2812 authority to deposit continuing education funds in trust accounts. The four campuses with substantial CERF funds in SMIF investments were Chico, Fullerton, Los Angeles, and Sonoma.

If these campuses had invested some continuing education reserves in a Met West medium-term account over the last five years, they would have earned a 6.21% rate of return versus 3.15%. Campuses may only use Met West when continuing education reserves are maintained in trust accounts. The most recent Annual Investment Report for the CSU as presented in Agenda Item 3 of the September 2005 meeting of the Board of Trustees’ Committee on Finance included a chart intended to illustrate how the Met West accounts have provided better long-term benefit to participants relative to the LAIF and other industry performance measurements as follows:

<table>
<thead>
<tr>
<th></th>
<th>FY 2004/05</th>
<th>Trailing Three Years¹</th>
<th>Trailing Five Years¹</th>
<th>Since Inception¹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Short-Term Account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LAIF</td>
<td>1.17%</td>
<td>1.86%</td>
<td>3.23%</td>
<td>4.19%</td>
</tr>
<tr>
<td></td>
<td>2.25%</td>
<td>2.00%</td>
<td>3.15%</td>
<td>4.10%</td>
</tr>
<tr>
<td><strong>Medium-Term Account</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merrill Lynch Index</td>
<td>3.20%</td>
<td>3.90%</td>
<td>6.21%</td>
<td>6.08%</td>
</tr>
<tr>
<td></td>
<td>3.25%</td>
<td>4.58%</td>
<td>6.89%</td>
<td>6.59%</td>
</tr>
</tbody>
</table>

¹Annualized.
²The Medium Term index from inception of the program through November 2004 was the Merrill Lynch 5-7 year Treasury index. On November 30, 2004, the investment committee changed the index from the Merrill Lynch 5-7 year Treasury index to the Merrill Lynch 1-5 year Treasury and Agency index. The Merrill Lynch 5-7 year Treasury index to the Merrill Lynch 1-5 year Treasury and Agency index are unmanaged indices consisting of cumulative daily returns of US Treasuries with maturities between 5 and 7 years, and 1-5 years, respectively.

Three of the four campuses (Chico, Fullerton, and Los Angeles) that retained significant continuing education funds in the CERF were visited in this audit. All three of these campuses were adamant in their position that market variables did not warrant deposit to trust accounts or diversification of funds between investment alternatives.
Absence of a thorough analysis of investments increases the risk that the CSU will not maximize investment returns and reduces the amount of funds available for continuing education programs.

**Recommendation 3**

We recommend that the chancellor’s office:

a. Review the existing accounting options for continuing education and determine whether it is advisable to discontinue the use of CERF.

b. Analyze the investment of continuing education funds to ensure current practices have maximized the rate of return.

**Management Response**

We concur.

The CSU is currently in the formative stages of establishing a centralized cash management program where all campus-based fee revenue will be deposited into the Systemwide Investment Fund Trust (SWIFT). These funds will be managed and invested through the chancellor’s office to maximize returns to all campus programs. The transition to SWIFT, when fully implemented, will eliminate the use of state fund 0573, as well as other CSU special revenue funds.

Anticipated Completion Date: December 15, 2006

**BUSINESS MODEL/CURRICULUM**

Promotional materials for certain self-support continuing education programs offered by auxiliary organizations inappropriately associated the programs with the campus at four of the seven campuses visited.

We found that there were certain non-credit programs administered through continuing education, but owned by one of the campus auxiliary organizations. At four of the seven campuses visited, these programs included:

- Chico – American Language and Culture Institute and the Osher Lifelong Learning Institute/Prime-Timers
- Fullerton – American Language Program
- Pomona – Various certificate and specialist programs
- San Marcos – American Language and Culture Institute
These programs were advertised through different means including brochures, mailers, and websites. The promotional materials presented them in a way that suggested ownership by the campus. In some combination, the materials:

- Prominently displayed the logo, name, pictures, and seal of the campus.
- Linked the programs to the campus Internet domains.
- Identified benefits that included use of campus facilities (e.g., library and health center).
- Promised enrollees identification cards that were the same as those provided to regularly enrolled students.
- Promoted the use of on-campus housing.

EO 794, Financial Management of Extended Education, dated November 12, 2001, states, in part, that auxiliary organizations can also offer self-supporting instructional programs. The courses are non-credit and cannot use the CSU name or representation in any manner. This same prohibition was relaxed somewhat in EO 919, Policy Governing Non-General Fund Receipts, dated October 15, 2004, which allows use of the CSU name only when it is part of the auxiliary’s title.

Certain campus management expressed concerns about removing the campus name from these programs because the programs were, in part, designed with the intent of promoting the campus and attracting/enrolling international students, including some who might not be eligible for regular university admission because of language skills.

Misleading presentation of auxiliary organization continuing education programs causes confusion and potentially increases campus liability.

**Recommendation 4**

We recommend that the chancellor’s office clarify the intent of EO 794/919 and identify specific instances where exceptions might be warranted.

**Management Response**

We concur.

Existing policy has created some campus-based misunderstandings on academic ownership issues. CSU Academic Affairs and Business and Finance will analyze current policy documents, including EO 794 and EO 919, and will issue appropriate modifications.

**Anticipated Completion Date:** December 15, 2006
FINANCIAL MANAGEMENT

CASHIERING

Cash control weaknesses were found at continuing education cashiering areas at five of the seven campuses visited.

Our review disclosed multiple campus locations where continuing education cashiering activities might occur. Several different types of control weaknesses in cashiering were observed at one or more locations at the five campuses as follows:

<table>
<thead>
<tr>
<th>Condition</th>
<th>Chico</th>
<th>Los Angeles</th>
<th>Maritime Academy</th>
<th>Pomona</th>
<th>San Marcos</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of segregation of duties</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Failure to control access to the safe</td>
<td></td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Failure to regularly provide restrictive endorsements on checks</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Failure to provide oversight by central office</td>
<td>✓</td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Failure to control ticket stock</td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

GC §13403 states that the elements of a satisfactory system of internal accounting and administrative control include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

State agency cashiering operations must also meet the requirements of the California State Administrative Manual (SAM).

SAM §8080 and §8080.1 require an adequate separation of duties so that no one person processes cash receipts and refunds, and state, in part, no one person shall perform more than one of the following types of duties: receiving and depositing remittances, and inputting receipts information.

SAM §8032.1 requires that receipts be adequately safeguarded until deposited. When such funds are not in use, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping.

SAM §8025 states that, as a deterrent to burglary, safes will be securely anchored to the building and, where practical, to the building’s foundation.
SAM §8024 requires the retention of a record listing the names of individuals with knowledge of a department’s safe combination and the date the combination was last changed.

SAM §8034.1 requires checks and other negotiable instruments to be endorsed on the day they are received.

Campus management cited various reasons for these issues including limited resources, lack of formal processes, continuing education not being considered a satellite cashiering location, and geographic distribution of operating units.

Inadequate controls over cash receipts increase campus exposure to loss from inappropriate acts.

**Recommendation 5**

We recommend that the chancellor’s office remind the campuses of the cashiering requirements applicable to continuing education.

**Management Response**

We concur.

Cashiering and security for student fees are extremely important functions. The chancellor’s office will provide campus continuing education leadership with an up-to-date cashiering policy.

Anticipated Completion Date: September 20, 2006.

**REVENUE RECONCILIATIONS**

Continuing education revenue reconciliations were incomplete or inadequately reviewed at most campuses visited.

The common breakdown of continuing education revenues was credit and non-credit course programming. Each of these two types generally had a slightly different process of reconciling revenues to enrollments and the reconciliations were the responsibility of continuing education units (CEUs) instead of campus accounting/business offices. Typically, the campuses visited did a better job of reconciling credit versus non-credit enrollments/revenues. However, even where some reconciliation activity occurred, there was generally inadequate documentation that the reconciliations were reviewed as evidenced in the following table:
OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

Continuing Education Revenue Reconciliations

<table>
<thead>
<tr>
<th>Campus</th>
<th>Credit Revenues Reconciled</th>
<th>Non-Credit Revenues Reconciled</th>
<th>Reconciliations Adequately Reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chico</td>
<td>Y</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Fullerton</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Long Beach</td>
<td>N</td>
<td>Y</td>
<td>N</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Maritime Academy</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Pomona</td>
<td>N</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>San Marcos</td>
<td>Y</td>
<td>N</td>
<td>N</td>
</tr>
</tbody>
</table>

Y = Yes   N = No

SAM §7920 states that two types of reconciliations are made: (1) reconciliation of agency accounts with records other than those prepared by the agency; and (2) reconciliation of two or more accounts or other records kept by an agency. In addition, each agency is responsible to complete any reconciliation necessary to safeguard assets and ensure reliable financial data.

SAM §7908 requires all reconciliations to show the name of the preparer and reviewer along with the date prepared and reviewed.

Campus management asserted a number of reasons for the reconciliation problems including a lack of direction on what was required and conversion of accounting systems to PeopleSoft.

Failure to prepare reconciliations compromises accountability and increases the risk that errors and irregularities will not be detected.

**Recommendation 6**

We recommend that the chancellor’s office remind the campuses of reconciliation requirements and the importance to the control environment of a timely and thorough supervisory review of reconciliation results.

**Management Response**

We concur.

Reconciliation of all General Fund and enterprise accounts is essential to good campus management. The chancellor’s office will send a letter to the campus business offices and CEUs stressing the importance of enterprise fund reconciliations.

Anticipated Completion Date: December 15, 2006.
APPENDIX A:
PERSONNEL CONTACTED

Office of the Chancellor
Gary W. Reichard  Executive Vice Chancellor and Chief Academic Officer
George Ashkar  Senior Director, Financial Services and Controller
Jim Blackburn  Associate Director, Enrollment Management Services
Sean Boylan  Director, Financial Management Services
Marsha Hirano-Nakanishi  Assistant Vice Chancellor, Academic Research and Resources
Dennis Hordyk  Assistant Vice Chancellor, Financial Services
Sedong John  Associate Director, Systemwide Financial Standards and Reporting
Allison Jones  Assistant Vice Chancellor, Student Academic Support
Edward McAleer  State University Dean, Extended Education
Colleen Nickles  Senior Director, Financing and Treasury
Sherry Pickering  General Accounting Manager
Steve Raskovich  University Counsel
Angie Renaud  Special Project Accountant
Rodney Rideau  Budget Director
Mary Robinson  Associate Director for Financial Aid, Student Academic Support
Jolayne Service  Dean, Academic Program Planning
Richard West  Executive Vice Chancellor and Chief Financial Officer (CFO)

Systemwide (Campuses Not Visited)
David DeMauro  Vice President – California State University, San Bernardino
Mark Erickson  Assistant to the Dean, College of Extended Learning and Manager, Fiscal and Business Services – California State University, San Bernardino
Missy Klep  Manager, Internal and External Reporting – California State University, Channel Islands
William Nance  Vice Provost, Academic Planning and Budgets – San José State University
George Pardon  Vice President, Administration and Finance – California State University, Dominguez Hills

California State University, Chico
Paul J. Zingg  President
Tom Alden  Computer Analyst/Programmer, Center for Regional and Continuing Education (RCE)
Debra Barger  Dean, RCE
Carol Blessum  Manager, Mail Services
Jan Burnham  Director, Student Financial Services
Susan Cottrell  Director, Budget Analysis and Research
Dave Foreman  Financial Analyst, Budget
Dennis Graham  Vice President for Business and Finance
Bob Hannigan  Vice Provost of Enrollment Management
Stephanie Henderson  Administrative Analyst/Specialist, RCE
Richard Jackson  Executive Director, The CSU, Chico Research Foundation
Bill Jones  Interim Associate Vice President for Financial Services
Michelle Korte  Director, Financial Reporting and Property
APPENDIX A: PERSONNEL CONTACTED

Scott McNall  Provost and Vice President for Academic Affairs
Doreen Mendes  Accounting Technician, Accounting Operations
Mary Oling-Otto  Director of Special Projects and Student Judicial Affairs
Joe Picard  Marketing Director, RCE
Patti Salomon  Financial Reporting Analyst
Janna Sterling  Administrative Assistant, RCE
Doug Wilson  Systems Support Technical Analyst, Human Resources

California State University, Fullerton
Milton A. Gordon  President
Antonieta (Toni) Bartter  Student Support Services Manager, University Extended Education (UEE)
John Beisner  Director, University Risk Management
Shou-Yinn (Pearl) Cheng  Director, Finance and Administration (CSUF Foundation)
Carol Creighton  Director of External Programs and Central Program Support, UEE
Linda Godding  Director of Budget and Finance, UEE
Naomi Goodwin  Assistant Vice President, Administration and Finance
Diana Guthrie  Accounting Assistant – Accounts Payable, UEE
Willie Hagan  Vice President, Administration and Finance/CFO
Elias Hajjar  Associate Director of Information Technology, UEE
Jannel Hope  Financial Analyst, UEE
Brian Jenkins  Associate Vice President, Finance
Melody Johnston  Associate Dean, UEE
Annette Jones  Accounting Assistant for Payroll, UEE
Susan Kachner  Director of Administrative Computing
Lisa Kopecky  Director, Academic Affairs Budget
Mark Lopez  Executive Assistant, Financial Management
Maria Mezhinsky  Data Coordinator, Admissions and Records
Sherri Newcomb  Chief of Budget Planning and Strategy
Harry Norman  Dean, UEE
Cecilia Patz  Director of Accounting Services and Financial Reporting
Lisa Penunuri  Operating Systems Analyst, Administration and Finance
Glen Shiry  Lead Network Analyst, Administration and Finance
Albert Sim  Supervisor, Student Accounts Receivable
Ephraim Smith  Vice President, Academic Affairs
Alex Tzoumas  Director of Internal Audit (At time of review)
Dolores Vura  Assistant Vice President, Institutional Research and Analytical Studies
Karen Wall  Interim Assistant Vice President, Budget Operations
May Wong  Director, Payroll and Payables
APPENDIX A: PERSONNEL CONTACTED

California State University, Long Beach

F. King Alexander  
President

Robert C. Maxson  
President (At time of review)

Janna Bersi  
Associate Executive Director and CFO, 
CSU, Long Beach Foundation

Kelly Cox  
Assistant to the Administrative Services Manager, 
University College and Extension Services (UCES)

Marilyn Crego  
Dean, UCES

Marilyn Crego  
Program Manager, UCES

William Griffith  
Vice President, Administration and Finance

Zoraya Gueldelman  
Registration Coordinator, UCES

Sheri Hale  
Scheduling Coordinator, UCES (At time of review)

Marianne Hata  
Assistant Vice President, Academic Resources

Donna Hilpert  
Contracts Supervisor

Tanya Ho  
Senior Internal Auditor

Charles Hughes  
Director of Procurement

Ina Hutchison  
Purchasing/Accounts Payable Coordinator, UCES

Christa Johnson  
Division Fiscal Officer, Financial Management

Mike Jones  
CFO, UCES

Mary Jones-Harley  
Assistant to the Director of Programs, UCES

Mat Kaplan  
Senior Director of Advanced Technology and Development, UCES

Joseph Latter  
Associate Vice President, Financial Management

Robyn Mack  
Associate Vice President, University Services and Chief of Staff

Joel Maculam  
Financial Systems Analyst

Kay Mascaro  
Financial Analyst, UCES

Shawn McCown  
University Controller

Jackie Mitchell  
Assistant Registration Coordinator, UCES

Rellen Owen  
Administrative Services Manager, UCES (At time of review)

Alisa Rocha  
Finance Assistant, UCES

Maryann Rozanski  
Director, Safety and Risk Management and 
Campus Information Security Officer

Carolyn Shadle  
Associate Dean, UCES

Heather Smith  
Executive Assistant to the Dean, UCES

Mark Smith  
Program Manager, UCES

Aysu Spruill  
Director, Internal Auditing Services

Sheila Thomas  
Director of Programs, UCES

Craig Walker  
Digital Systems Specialist, UCES

Penni Wells  
Director – Staff Development and Training, UCES

California State University, Los Angeles

James M. Rosser  
President

Mustafah Dhada  
Dean of Extended Education

Steven Garcia  
Vice President and CFO, 
Administration and Finance

Alice Gutierrez  
Coordinator, Professional Development

Robert Hoffman  
Manager, Data Center Operations

Yuet Lee  
Associate Vice President, Administration and Finance
APPENDIX A: PERSONNEL CONTACTED

Herman Lujan  Provost and Vice President for Academic Affairs
Janet Mori  Division Secretary, Extended Education
Michael Perry  Senior Internal Auditor
Bryon Wada  Registration Supervisor
Adrienne Yamagishi  Fiscal/Administrator Operations Specialist
Steven Yim  University Internal Auditor

California Maritime Academy
William B. Eisenhardt  President
Michael Bittner  Dean of Sponsored Projects and Extended Learning, Continuing Education (CE)
Donna Carreon  Human Resources Analyst
Vineeta Dhillon  Purchasing Manager
Gale Gomez  Cashier
Stephen Kreta  Dean of Academics
Gay Kviliaug  Accountant
Steve Mastro  Budget Officer
Mark Nickerson  Vice President of Administration and Finance
Rich Power  Network Specialist
Diane Rawicz  Director, California Maritime Academy Services
Cheri Sims  Payroll Technician
Ken Toet  Controller
Shelrey Woodson  Administrative Assistant/Course Coordinator, CE
Donald Zingale  Vice President of Academic Affairs

California State Polytechnic University, Pomona
J. Michael Ortiz  President
Linda Ableman  Director of Kellogg House Pomona
Ed Barnes  Associate Vice President for Executive Affairs
Randall Burger  Director of Cal Poly English Language Institute
Dawn Burns  Accountant
Dora Chapman  Assistant Registrar
Robert Charles  ExtendTech Training Program Manager
Theresa Ensley  Study Abroad Coordinator, International Center
Patricia Farris  Vice President of Administrative Affairs and CFO
Julie Holland  Executive Director of Business Services
Darwin Labordo  Associate Vice President for Finance and Administrative Services (At time of review)
Tariq Marji  General Financial Manager, Cal Poly Pomona Foundation
David Prenovost  CFO, Cal Poly Pomona Foundation
G. Paul Storey  Executive Director of Cal Poly Pomona Foundation
Joice Xiong  Budget Analyst, International Center
**APPENDIX A: PERSONNEL CONTACTED**

**California State University, San Marcos**

<table>
<thead>
<tr>
<th>Name</th>
<th>Position and Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Karen S. Haynes</td>
<td>President</td>
</tr>
<tr>
<td>Beverlee Anderson</td>
<td>Masters of Business Administration Director, College of Business Administration</td>
</tr>
<tr>
<td>Michael Bell</td>
<td>Administrative Analyst, Academic Resources</td>
</tr>
<tr>
<td>Shirley Brady</td>
<td>Interim Associate Vice President, Finance and Business Services</td>
</tr>
<tr>
<td>Keith Butler</td>
<td>Director of College Operations, College of Business Administration</td>
</tr>
<tr>
<td>MarthaAnn Haney</td>
<td>Director, Registration and Records</td>
</tr>
<tr>
<td>Linda Hawk</td>
<td>Interim Associate Vice President, Resource Management</td>
</tr>
<tr>
<td>Tricia Henlon</td>
<td>Manager, Financial and Administrative Operations, Extended Studies</td>
</tr>
<tr>
<td>Neal Hoss</td>
<td>Vice President, Finance and Administrative Services</td>
</tr>
<tr>
<td>Jan Jackson</td>
<td>Dean, Extended Studies</td>
</tr>
<tr>
<td>M.G. (Peggy) Kelly</td>
<td>Interim Associate Dean, College of Education</td>
</tr>
<tr>
<td>Teresa Macklin</td>
<td>Director of Academic Technology Services</td>
</tr>
<tr>
<td>Alma McFarland</td>
<td>Interim Accounts Receivable Lead, Student Financial Services</td>
</tr>
<tr>
<td>Tracey Richardson</td>
<td>Academic Scheduling and Space Coordinator, Curriculum and Scheduling Office</td>
</tr>
<tr>
<td>Alejandra Sanchez</td>
<td>Registration Coordinator, Non-Credit Programs, Extended Studies</td>
</tr>
<tr>
<td>Susan Wallace</td>
<td>Interim Controller, Finance and Business Services</td>
</tr>
<tr>
<td>Daniel Zorn</td>
<td>Director, Common Management System Finance</td>
</tr>
</tbody>
</table>
## APPENDIX B:
### CONTINUING EDUCATION RESERVES

<table>
<thead>
<tr>
<th>Campus</th>
<th>6/30/01</th>
<th>6/30/02</th>
<th>6/30/03</th>
<th>6/30/04</th>
<th>6/30/05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bakersfield</td>
<td>$838,208</td>
<td>$535,684</td>
<td>$731,461</td>
<td>$658,494</td>
<td>$441,088</td>
</tr>
<tr>
<td>Channel Islands</td>
<td>$29,464</td>
<td>$0</td>
<td>$116,220</td>
<td>$214,008</td>
<td>$355,656</td>
</tr>
<tr>
<td>Chico</td>
<td>$2,985,893</td>
<td>$3,365,098</td>
<td>$4,410,676</td>
<td>$4,765,280</td>
<td>$5,265,042</td>
</tr>
<tr>
<td>Dominguez Hills</td>
<td>$5,830,850</td>
<td>$5,738,659</td>
<td>$5,531,682</td>
<td>$4,482,917</td>
<td>$3,805,976</td>
</tr>
<tr>
<td>East Bay</td>
<td>($1,145,832)</td>
<td>($1,752,743)</td>
<td>($623,980)</td>
<td>$465,443</td>
<td>$1,017,061</td>
</tr>
<tr>
<td>Fresno</td>
<td>($8,024,946)</td>
<td>$3,754,624</td>
<td>$4,027,441</td>
<td>$5,677,342</td>
<td>$7,455,169</td>
</tr>
<tr>
<td>Fullerton</td>
<td>$4,941,021</td>
<td>$3,321,595</td>
<td>$3,254,392</td>
<td>$4,449,347</td>
<td>$6,514,503</td>
</tr>
<tr>
<td>Humboldt</td>
<td>$1,987,793</td>
<td>$2,257,335</td>
<td>$2,427,164</td>
<td>$2,664,822</td>
<td>$2,842,861</td>
</tr>
<tr>
<td>Long Beach</td>
<td>$5,733,722</td>
<td>$6,445,122</td>
<td>$7,104,846</td>
<td>$6,465,320</td>
<td>$7,073,309</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>$2,317,034</td>
<td>$2,015,516</td>
<td>$2,177,334</td>
<td>$2,423,411</td>
<td>$2,127,763</td>
</tr>
<tr>
<td>Maritime Academy</td>
<td>$122,084</td>
<td>$110,596</td>
<td>$55,854</td>
<td>($103,021)</td>
<td>$221,706</td>
</tr>
<tr>
<td>Monterey Bay</td>
<td>$150,034</td>
<td>$162,205</td>
<td>$769,426</td>
<td>$412,435</td>
<td>$378,229</td>
</tr>
<tr>
<td>Northridge</td>
<td>$2,338,048</td>
<td>$1,621,904</td>
<td>$1,579,735</td>
<td>$1,792,574</td>
<td>$2,057,577</td>
</tr>
<tr>
<td>Pomona</td>
<td>$364,906</td>
<td>$221,441</td>
<td>$160,687</td>
<td>$199,625</td>
<td>$425,536</td>
</tr>
<tr>
<td>Sacramento</td>
<td>$5,433,989</td>
<td>$3,103,959</td>
<td>$4,208,728</td>
<td>$4,091,604</td>
<td>$4,897,195</td>
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<tr>
<td>San Bernardino</td>
<td>$52,388</td>
<td>($763,147)</td>
<td>($1,629,363)</td>
<td>($1,710,964)</td>
<td>($1,285,476)</td>
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<tr>
<td>San Diego</td>
<td>$11,154,034</td>
<td>$11,901,289</td>
<td>$5,499,581</td>
<td>$5,542,401</td>
<td>$5,669,511</td>
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<tr>
<td>San Francisco</td>
<td>$2,945,758</td>
<td>$1,880,057</td>
<td>$2,479,805</td>
<td>$2,248,763</td>
<td>$2,236,756</td>
</tr>
<tr>
<td>San José</td>
<td>$5,876,219</td>
<td>$10,110,409</td>
<td>$9,736,773</td>
<td>$8,441,762</td>
<td>$12,354,593</td>
</tr>
<tr>
<td>San Luis Obispo</td>
<td>$353,793</td>
<td>$256,949</td>
<td>$149,469</td>
<td>$89,546</td>
<td>$142,255</td>
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<tr>
<td>San Marcos</td>
<td>$1,218,156</td>
<td>$1,712,624</td>
<td>$1,219,265</td>
<td>$1,351,974</td>
<td>$1,490,524</td>
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<tr>
<td>Sonoma</td>
<td>$1,226,887</td>
<td>$1,545,659</td>
<td>$1,531,474</td>
<td>$2,158,283</td>
<td>$1,560,325</td>
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<tr>
<td>Stanislaus</td>
<td>$1,121,165</td>
<td>$1,068,556</td>
<td>$637,019</td>
<td>$485,349</td>
<td>$1,118,646</td>
</tr>
<tr>
<td>Systemwide CO</td>
<td>$1,834,496</td>
<td>$584,108</td>
<td>($403,059)</td>
<td>($381,838)</td>
<td>$687,782</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$49,685,164</td>
<td>$59,197,499</td>
<td>$55,152,630</td>
<td>$56,875,877</td>
<td>$68,853,587</td>
</tr>
</tbody>
</table>

### Continuing Education Reserves

![Graph showing the continuing education reserves from 2001 to 2005](chart.png)
### APPENDIX C:
COST ALLOCATION PLAN EXAMPLE

COST ALLOCATION PLAN TO AUXILIARY ENTERPRISES*
FY 2005/06

AUXILIARY/ENTERPRISE ORGANIZATION: Continuing/Extended Education

<table>
<thead>
<tr>
<th>Outline of Services</th>
<th>Annual Cost</th>
<th>Outline of General Fund Recovery</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Affairs</td>
<td>$2,433,200</td>
<td>Revenue Split Special Sessions</td>
<td>$1,064,600 (A)</td>
</tr>
<tr>
<td>Budget and Human Resources</td>
<td>$5,300</td>
<td>Open University</td>
<td>$822,400 (A)</td>
</tr>
<tr>
<td>Bursar’s Office</td>
<td>$18,700</td>
<td>4.8% of Revenue per MOU</td>
<td>$677,000 (A)</td>
</tr>
<tr>
<td>Business Systems</td>
<td>$9,300</td>
<td>Services</td>
<td>$417,700 (B)</td>
</tr>
<tr>
<td>Controller’s Office</td>
<td>$79,700</td>
<td>Concurrent Enrollment</td>
<td>$252,900 (A)</td>
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<tr>
<td>Employee Relations</td>
<td>$800</td>
<td>Open University-Summer</td>
<td>$125,600 (A)</td>
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<tr>
<td>Payroll Services</td>
<td>$7,600</td>
<td>GS700</td>
<td>$93,200 (A)</td>
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<td>Personnel Services</td>
<td>$11,300</td>
<td>Winter Session</td>
<td>$65,900 (A)</td>
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<tr>
<td>Physical Planning and Facilities Mgmt.</td>
<td>$530,900</td>
<td></td>
<td></td>
</tr>
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<td>Purchasing and Support Services</td>
<td>$1,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety and Risk Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Projected Costs and Recovery</td>
<td>$3,190,200</td>
<td></td>
<td>$3,519,300</td>
</tr>
</tbody>
</table>

*General Fund costs reported are those costs that are not billed directly or charged back to the auxiliary.

**Method of Recovery**

(A) Reimbursements to General Fund will be calculated in accordance with the Memorandum of Understanding (MOU) dated April 1999. Funds are transferred to General Fund and/or to university accounts.

(B) Reimbursements via Service-In-Kind.

**Footnote**

Projected indirect costs and recoveries are based on the actual information available for FY 2003/04. Indirect costs will be reviewed annually and revised as needed to reflect the material changes that may affect the cost allocation plan for future years.
MEMORANDUM

DATED: June 30, 2006

TO: Larry Mandel
   University Auditor

FROM: Gary W. Reichard
      Executive Vice Chancellor and Chief Academic Officer

SUBJECT: Management Response to Administration of the Continuing Education Revenue Fund (CERF)

Attached are the management responses to the six recommendations included in Internal Audit Report Number 05-13, Administration of the Continuing Education Revenue Fund.

In forwarding these responses, I want to recognize that both the responses and implementation timetable are a joint product of the Business and Finance Division and Academic Affairs. The two divisions will work together to insure that the recommendations are addressed by constituent groups by the end of calendar 2006.

If there are questions, or lack of agreement, please contact me at once.

Enclosure (1)

c: Charles B. Reed, Chancellor
   Richard West, Executive Vice Chancellor and Chief Financial Officer
   Ed McAleer, State University Dean of Extended Education

CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay
Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy
Monterey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego
San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus
CONTINUING EDUCATION

SYSTEMWIDE

Report Number 05-13
May 19, 2006

CONTINUING EDUCATION ADMINISTRATION

RESERVE ACCUMULATION

Recommendation 1

We recommend that the chancellor’s office:

a. Establish reasonable thresholds and acceptable purposes for accumulation and use of continuing education reserves.

b. Take action to ensure that continuing education reserves are reduced to and maintained at appropriate levels.

c. Develop and communicate to the campuses specific policies and procedures describing the options available and the actions necessary to address negative account balances and deficits in continuing education revenue funds/trust accounts.

Management Response

We concur.

The Chancellor’s Office, Business and Finance Division, in coordination with CABO, will develop and publish appropriate systemwide standards for the accumulation of continuing education program reserves, including procedures to correct deficit accounts.

Anticipated Completion Date: December 15, 2006

COST ALLOCATIONS

Recommendation 2

We recommend that the chancellor’s office:

a. Obtain copies of all campus EO 753 plans, analyze them for compliance with EO requirements, identify best practices and alternatives, and summarize the results for systemwide distribution.

b. Establish a process to periodically evaluate the acceptability and appropriateness of indirect costs allocated to continuing education programs.
Management Response

We concur.

The Chancellor’s Office, Business and Finance Division, will establish a systemwide “clearing house” for indirect cost allocation planning and policy development. After consultation with CABO, reporting processes will be implemented to collect and analyze annual campus indirect cost plans at the Chancellor’s Office.

Anticipated Completion Date: November 1, 2006

CERF VS. TRUST

Recommendation 3

We recommend that the chancellor’s office:

a. Review the existing accounting options for continuing education and determine whether it is advisable to discontinue the use of CERF.

b. Analyze the investment of continuing education funds to ensure current practices have maximized the rate of return.

Management Response

We concur.

The CSU is currently in the formative stages of establishing a centralized cash management program where all campus-based fee revenue will be deposited into the Systemwide Investment Fund-Trust (SWIFT). These funds will be managed and invested through the Chancellor’s Office to maximize returns to all campus programs. The transition to SWIFT, when fully implemented, will eliminate the use of State fund 0573, as well as other CSU special revenue funds.

Anticipated Completion Date: December 15, 2006

BUSINESS MODEL/CURRICULUM

Recommendation 4

We recommend that the chancellor’s office clarify the intent of EO 794/919 and identify specific instances where exceptions might be warranted.
Management Response

We concur.

Existing policy has created some campus-based misunderstandings on academic ownership issues. CSU Academic Affairs and Business & Finance will analyze current policy documents, including EO 794 and EO 919, and will issue appropriate modifications.

Anticipated Completion Date: December 15, 2006

FINANCIAL MANAGEMENT

CASHIERING

Recommendation 5

We recommend that the chancellor’s office remind the campuses of the cashiering requirements applicable to continuing education.

Management Response

We concur.

Cashiering and security for student fees are extremely important functions. The Chancellor’s Office will provide campus Continuing Education leadership with up-to-date cashiering policy.

Anticipated Completion Date: September 20, 2006.

REVENUE RECONCILIATIONS

Recommendation 6

We recommend that the chancellor’s office remind the campuses of reconciliation requirements and the importance to the control environment of a timely and thorough supervisory review of reconciliation results.

Management Response

We concur.

Reconciliation of all general fund and enterprise accounts is essential to good campus management. The Chancellor’s Office will send a letter to the campus business offices and Continuing Education Units stressing the importance of enterprise fund reconciliations.

Anticipated Completion Date: December 15, 2006.
August 9, 2006

MEMORANDUM

TO: Mr. Larry Mandel  
University Auditor

FROM: Charles B. Reed  
Chancellor

SUBJECT: Draft Final Report Number 05-13 on Continuing Education, Systemwide

In response to your memorandum of August 9, 2006, I accept the response as submitted with the draft final report on Continuing Education, Systemwide.

CBR/jt

Enclosure

cc: Mr. Ed McAleer, State University Dean, Extended Education  
Dr. Gary W. Reichard, Executive Vice Chancellor and Chief Academic Officer  
Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer