

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

**Report Number 05-20**  
**February 27, 2006**

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**Members, Committee on Audit**

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## **ABBREVIATIONS**

AB	Assembly Bill
ALCI	American Language and Culture Institute
CERF	Continuing Education Revenue Fund
CEU	Continuing Education Unit
CFO	Chief Financial Officer
CSU	California State University
CSUSM	California State University, San Marcos
EO	Executive Order
ES	Extended Studies
FTES	Full-Time Equivalent Students
FY	Fiscal Year
MOU	Memoranda of Understanding
RFIN	Resolution of the Committee on Finance
SAM	State Administrative Manual

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## **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 the California State University, San Marcos (CSUSM) campus from October 31, 2005, through December 2, 2005, and audited the procedures in effect at that time.

In our opinion, controls within selected areas of the continuing education function were operating effectively and in compliance with existing California State University policies, with the exception of those areas identified in the executive summary and in the details of the report.

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 cost allocation plan was not finalized for the current fiscal year and certain extended studies (ES) operating agreements were outdated.

### **BUSINESS MODEL/CURRICULUM [9]**

Promotional materials for the American Language and Culture Institute, offered by the CSUSM Foundation, inappropriately associated the program with the campus.

### **FINANCIAL MANAGEMENT [10]**

ES cash control weaknesses included reliance on a small, portable lockbox for the significant volume of collections received. ES did not have a written record of individuals with access to the lockbox nor the date the combination was last changed. In addition, non-credit course revenues were not formally reconciled to enrollments (*this is a repeat finding from the prior continuing education audit*) and credit course revenue reconciliations were not signed and dated by the preparer or reviewer.

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## 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:

<b>Campus</b>	<b>FTES State-Support Matriculants</b>	<b>FTES Self-Support Matriculants</b>
Bakersfield	127.2	144.0
Channel Islands		
Chico	101.1	
Dominguez Hills	398.4	
East Bay	86.1	249.4
Fresno	312.2	12.8
Fullerton	348.9	36.8
Humboldt	16.0	
Long Beach	392.5	247.7
Los Angeles	34.8	
Maritime Academy		
Monterey Bay	105.2	
Northridge	955.4	58.0
Pomona	17.0	3.7
Sacramento	296.7	181.8
San Bernardino		2.1
San Diego	60.0	242.3
San Francisco	91.6	33.1
San José	183.7	513.9
San Luis Obispo	27.6	
San Marcos	14.4	
Sonoma	332.4	115.4
Stanislaus	7.7	
<b>Total</b>	<b>3,908.9</b>	<b>1,841.0</b>

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.

At California State University, San Marcos (CSUSM), the office of extended studies reporting to the provost/vice president for academic affairs has overall responsibility for continuing education.

The CSUSM Foundation at the campus is also involved in delivery of non-credit, continuing education program offerings.

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.

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# OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

## CONTINUING EDUCATION ADMINISTRATION

### COST ALLOCATION

The California State University, San Marcos (CSUSM) cost allocation plan was not finalized for the current fiscal year (FY).

The *Allocation of Costs to Auxiliary and Auxiliary Enterprises* was in draft form during the course of our audit. We reviewed the draft dated September 27, 2005, and found that the methodology used in this study was incomplete. The draft assigned responsibility for the allocation of costs for extended studies (ES) to a memorandum of understanding established in May 2000. The draft did not include nor account for all the services provided by the campus. In addition, documents presented for the allocation plan illustrated that the campus had not reviewed the indirect cost allocation plan annually. Recently, plan reviews occurred in 2004, 2002, 1998, 1996, and 1994.

Executive Order (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 to be reasonable and provide consistent estimation, accumulation, and reporting of related costs.

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 California State University (CSU).

The interim associate vice president of finance and business services stated that the allocation plan had not been finalized due to employee turnover and the inability to fill vacant positions.

The absence of an approved cost allocation plan increases the risk that the General Fund is not fully compensated for support provided to auxiliary enterprises.

#### **Recommendation 1**

We recommend that the campus:

- a. Develop a cost allocation plan approved by the chief fiscal officer in advance of each FY.
- b. Monitor performance against the plan during the course of the year to measure the accuracy and acceptability of the terms and conditions and modify them as needed.

### **Campus Response**

We concur. The campus will:

- a. Develop a cost allocation plan approved by the chief financial officer (CFO) in advance of each FY.
- b. Monitor performance against the plan during the course of the year to measure the accuracy and acceptability of the terms and conditions and modify them as needed.

Anticipated completion date: June 30, 2006

### **OUTDATED AGREEMENTS**

Certain ES memoranda of understanding (MOU) were outdated.

In addition to the May 2000 memorandum of understanding ES had with the campus, ES had other agreements with the CSUSM Foundation that were outdated, including the lease for space and the agreement to establish procedures which permit the CSUSM Foundation to offer instructionally-related, self-support programs under the auspices of ES.

Government Code §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.

The dean of ES stated that the MOU were outdated due to lack of expiration dates in the agreements and the transition in the management of ES.

The ability to perform contemporaneous analysis of operations is reduced, and the risk of inappropriate terms and conditions is increased when outdated agreements are left in force.

### **Recommendation 2**

We recommend that the campus review and renew agreements at more frequent intervals.

### **Campus Response**

We concur. The campus has reviewed and renewed agreements subject to annual review by the CFO.

Corrective action has been completed.

## **BUSINESS MODEL/CURRICULUM**

Promotional materials for the American Language and Culture Institute (ALCI), offered by the CSUSM Foundation, inappropriately associated the program with the campus.

The CSUSM Foundation owned the ALCI program that was advertised through different means including brochures, catalogs, and websites. These promotional materials presented the program in a way that suggested ownership by the campus because:

- ▶ The materials prominently displayed the logo, name, and pictures of the campus.
- ▶ The materials linked the program to the campus internet domain.
- ▶ The office of university global affairs in the division of academic affairs maintained all ALCI materials and distributed information for the program.

EO 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004, states, in part, that auxiliary organizations also offer self-supporting instructional programs. The courses are non-credit and cannot use the CSU name or representation in any manner other than where CSU is part of the auxiliary's title.

The dean of ES stated that the ALCI was an ES program in the past and the separation of the program from ES to the CSUSM Foundation was still in process.

Misleading presentation of campus and foundation programs causes confusion and potentially increases campus liability for continuing education programs.

### **Recommendation 3**

We recommend that reference to the campus in self-support materials promoting the ALCI, which is owned by the CSUSM Foundation, be clarified.

### **Campus Response**

We concur. The campus will clarify reference to the university in self-support materials that promote programs such as the ALCI, which is owned by the CSUSM Foundation.

Anticipated completion date: June 30, 2006

## FINANCIAL MANAGEMENT

### CASHIERING

ES facilities for safeguarding cash receipts were inadequate.

We reviewed ES receipts for FY 2004/05 and found ES to be a significant satellite cashiering location due to the volume of checks and cash received, yet cash was maintained in a small, portable lockbox. In addition, ES did not have a written record of individuals with access to the lockbox nor the date the combination was last changed.

State Administrative Manual (SAM) §8032.1 requires that funds be afforded adequate safekeeping when they are not in use.

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.

The dean of ES stated that ES performed daily deposits and as such, questioned the need for the department to have a safe or vault as ES was in compliance with the university's cash handling policies and procedures. She further stated that periodic audits of ES by the cashier's office did not address this as an issue.

Inadequate control and accounting for cash receipts and deposits increase exposure to misappropriation of funds. Security/internal control over cash are compromised when access to cash storage devices are not properly documented.

#### Recommendation 4

We recommend that the campus:

- a. Acquire a safe for the ES facility and securely anchor it.
- b. Document when combinations to cash storage devices are changed.
- c. Retain a record listing the names of individuals with access to cash storage devices.

#### Campus Response

We concur. The campus has:

- a. Acquired a safe for the ES facility and securely anchored it.
- b. Begun documenting when combinations to the safe and other cash storage devices are changed.
- c. Retained a record listing the names of individuals with access to the safe and other cash storage devices.

Corrective action has been completed.

## REVENUE RECONCILIATIONS

Non-credit course revenues were not formally reconciled to enrollments (*this is a repeat finding from our prior continuing education audit*) and reconciliations for credit course revenues were not signed and dated by the preparer and reviewer.

We reviewed reconciliations for the two types of ES course revenues (credit and non-credit courses). Non-credit course revenues were not formally reconciled. For credit course revenues, we found the reconciliation to be a two-step process:

- ▶ ES prepared, signed, and dated the reconciliation to Banner and forwarded the information to accounting.
- ▶ Accounting further reconciled the information to PeopleSoft.

The second step of the formal credit to revenue reconciliations, completed in the campus' accounting services department, was neither signed nor dated by the preparer or reviewer.

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 states that all reconciliations will show the preparer's name, reviewer's name, date prepared, and date reviewed.

The dean of ES stated that the non-credit registration database was not interfaced with the campus systems. The interim associate vice president of finance and business services stated that she was unaware that the reconciliations were not being signed and dated by the preparer or reviewer.

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

### Recommendation 5

We recommend that the campus:

- a. Regularly prepare a reconciliation of revenue to enrollments for non-credit courses.
- b. Require that the credit to revenue reconciliation be signed and dated by the preparer and reviewer.

**Campus Response**

We concur. The campus will:

- a. Prepare a quarterly reconciliation of revenue to enrollments for non-credit courses.
- b. Require that the credit to revenue reconciliations done by the campus' accounting services department be signed and dated by the preparer and reviewer.

Anticipated completion date: June 30, 2006

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Karen S. Haynes	President
Beverlee Anderson	Masters of Business Administration Director, College of Business Administration
Michael Bell	Administrative Analyst, Academic Resources
Shirley Brady	Interim Associate Vice President, Finance and Business Services
Keith Butler	Director of College Operations, College of Business Administration
Martha Ann Haney	Director, Registration and Records
Linda Hawk	Interim Associate Vice President, Resource Management
Tricia Henlon	Manager, Financial and Administrative Operations, Extended Studies (ES)
Neal Hoss	Vice President, Finance and Administrative Services
Jan Jackson	Dean, ES
M.G. (Peggy) Kelly	Interim Associate Dean, College of Education
Teresa Macklin	Director of Academic Technology Services
Alma McFarland	Interim Accounts Receivable Lead, Student Financial Services
Tracey Richardson	Academic Scheduling and Space Coordinator, Curriculum and Scheduling Office
Alejandra Sanchez	Registration Coordinator, Non-Credit Programs, ES
Susan Wallace	Interim Controller, Finance and Business Services
Daniel Zorn	Director, Common Management Systems Finance



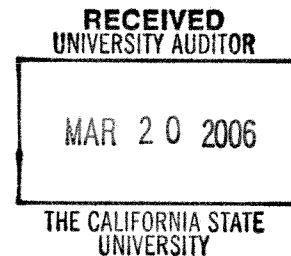
*"Becoming Nationally Recognized Leaders in Higher Ed Administration"*

*Neal R. Hoss  
Vice President,  
Finance & Administrative Services*

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March 16, 2006

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, CA 90802



Subject: Campus Response to Recommendations of Report Number 05-20  
Continuing Education at California State University, San Marcos

Dear Mr. Mandel:

Enclosed is our response to the recommendations in Report Number 05-20, Continuing Education. Upon acceptance of our response by the Chancellor, we will provide your office with documentation for those recommendations that we have completed and will follow up with you by the anticipated completion date for the remaining recommendations.

We sincerely appreciate your responsiveness and assistance during this audit. Please let me know if you have any questions or need additional information.

Sincerely,

Neal R. Hoss  
Vice President  
Finance and Administrative Services

Enclosure

Cc: President Karen S. Haynes  
Dr. Jan Jackson, Dean, Extended Studies  
Ms. Linda Hawk, Associate Vice President for Resource Management

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

**Report Number 05-20**  
**February 27, 2006**

**CONTINUING EDUCATION ADMINISTRATION**

**COST ALLOCATION**

**Recommendation 1**

We recommend that the campus:

- a. Develop a cost allocation plan approved by the chief fiscal officer in advance of each FY.
- b. Monitor performance against the plan during the course of the year to measure the accuracy and acceptability of the terms and conditions and modify them as needed.

**Campus Response**

We concur. The campus will:

- a. Develop a cost allocation plan approved by the chief financial officer in advance of each fiscal year.
- b. Monitor performance against the plan during the course of the year to measure the accuracy and acceptability of the terms and conditions and modify them as needed.

Anticipated Completion Date: June 30, 2006

**OUTDATED AGREEMENTS**

**Recommendation 2**

We recommend that the campus review and renew agreements at more frequent intervals.

**Campus Response**

We concur. The campus has reviewed and renewed agreements subject to annual review by the chief financial officer.

Anticipated Completion Date: Completed

## **BUSINESS MODEL/CURRICULUM**

### **Recommendation 3**

We recommend that reference to the campus in self-support materials promoting the ALCI, which is owned by the CSUSM Foundation, be clarified.

### **Campus Response**

We concur. The campus will clarify reference to the University in self-support materials that promote programs such as the ALCI, which is owned by the CSUSM Foundation.

Anticipated Completion Date: June 30, 2006

## **FINANCIAL MANAGEMENT**

### **CASHIERING**

#### **Recommendation 4**

We recommend that the campus:

- a. Acquire a safe for the ES facility and securely anchor it.
- b. Document when combinations to cash storage devices are changed.
- c. Retain a record listing the names of individuals with access to cash storage devices.

### **Campus Response**

We concur. The campus has:

- a. Acquired a safe for the Extended Studies facility and securely anchored it.
- b. Begun documenting when combinations to the safe and other cash storage devices are changed.
- c. Retained a record listing the names of individuals with access to the safe and other cash storage devices.

Anticipated Completion Date: Completed

### **REVENUE RECONCILIATIONS**

#### **Recommendation 5**

We recommend that the campus:

- a. Regularly prepare a reconciliation of revenue to enrollments for non-credit courses.

- b. Require that the credit to revenue reconciliation be signed and dated by the preparer and reviewer.

**Campus Response**

We concur. The campus will:

- a. Prepare a quarterly reconciliation of revenue to enrollments for non-credit courses.
- b. Require that the credit to revenue reconciliations done by the campus' Accounting Services department be signed and dated by the preparer and reviewer.

Anticipated Completion Date: June 30, 2006



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

April 3, 2006

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

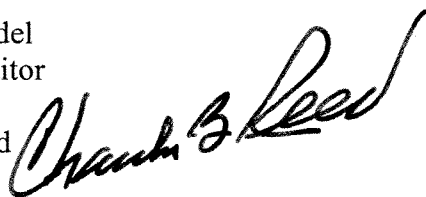
DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor


HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 05-20 on *Continuing Education*,  
California State University, San Marcos

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of April 3, 2006, I accept the response as submitted with the draft final report on *Continuing Education*, California State University, San Marcos.

MONTEREY BAY

NORTHRIDGE

CBR/jt

POMONA

Enclosure

SACRAMENTO

cc: Dr. Karen S. Haynes, President  
Mr. Neal R. Hoss, Vice President for Finance and Administrative Services

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS