CONTINUING EDUCATION
CALIFORNIA STATE UNIVERSITY, FULLERTON

Audit Report 14-60
December 19, 2014

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<th>Description</th>
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<tr>
<td>CE</td>
<td>Continuing Education</td>
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<tr>
<td>CERF</td>
<td>Continuing Education Revenue Fund</td>
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<td>CFO</td>
<td>Chief Financial Officer</td>
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<td>CSA</td>
<td>California State Auditor</td>
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<td>CSU</td>
<td>California State University</td>
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<td>EO</td>
<td>Executive Order</td>
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<td>EC</td>
<td>Education Code</td>
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<td>OAAS</td>
<td>Office of Audit and Advisory Services</td>
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<td>OU</td>
<td>Open University</td>
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EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of Audit and Advisory Services (OAAS) during the last quarter of 2013, the Board of Trustees, at its January 2014 meeting, directed that Continuing Education (CE) be reviewed. The OAAS had previously reviewed CE in 2005.

We visited the California State University, Fullerton campus from October 6, 2014, through October 31, 2014, and audited the procedures in effect at that time. Campus-specific findings and recommendations have been discussed and reported individually.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls for CE activities as of October 31, 2014, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report. Areas of concern include: business model and curriculum, and fiscal administration.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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.

BUSINESS MODEL AND CURRICULUM [7]

The campus did not comply with conditions for enrollment of non-matriculated students in state-supported courses.

FISCAL ADMINISTRATION [8]

The campus did not fully comply with California State University policies when establishing fees for self-support degree programs.
INTRODUCTION

BACKGROUND

In 1971, the Continuing Education Reserve Fund (CERF) Act required each CSU campus to create extended education units to meet the emerging needs of a changing populace featuring academic flexibility and supplementary delivery methods. Extended education is entirely self-supporting and reports to Academic Affairs.

Access to Excellence, the California State University (CSU) strategic system-level plan adopted by the Board of Trustees in 2008, lists the CSU’s responsibility to meet post-baccalaureate needs, including those of working professionals, as one of its eight key commitments. Continuing education (CE) is identified in the plan as one way to expand capacity in underserved academic areas and promote better models for the training and retraining of working adults.

CE (also referred to as extended education) is defined as a means whereby the instructional courses and programs of the CSU can be provided on a self-support basis at times and in locations not supported by the CSU Operating Fund. Continuing education in the CSU had its origins in the gold rush boom town atmosphere of San Francisco in the 1850s. As a result of complaints about the low quality of teaching in San Francisco’s elementary schools, a normal school was established in San Francisco in 1857, later to evolve into a State Teachers College and eventually become one of the first state colleges in California. Classes were held Monday evenings so as not to interfere with daytime teaching assignments. In 1932, Fresno State College established the system’s first extension program.

Since those early efforts at in-service instruction for schoolteachers, CE now provides an increasingly broad spectrum of services to a large number of professionals who seek retraining or advanced training to improve their job skills or obtain academic credit earned outside of the regular university model. CE offerings include specialized instruction designed to meet the needs of a certain region or a specific target population, as well as academic course offerings to supplement the campus academic program requirements. Examples of CE include interim sessions between college-year terms; course and degree program offerings scheduled at military bases, employment locations, organizations, correctional facilities, and other distant locations; and instructional programs for a specific client group requiring special services or scheduling accommodations.

At the request of the Joint Legislative Audit Committee, the California State Auditor (CSA) conducted an audit of CE in the CSU system in 2012/13 and issued the final report in December 2013. The CSA reviewed the chancellor’s office (CO) and three campuses (San Jose, Sacramento, and Long Beach) and concluded that the system needed improvement in four areas: the supplanting of state-support courses with self-support courses; compliance with system policies for fee establishment; expenditure controls; and curricula and faculty hiring requirements.

In response to an audit recommendation by the CSA, the CO issued Executive Order (EO) 1099, Extended Education: Self-Supporting Instructional Courses and Programs, on June 9, 2014, which superseded four previous EOs related to CE. Although the CSA audit recommended that the CSU, in conjunction with the 2014 state legislature during its 2014 legislative session, clarify the definition of “supplant,” the new EO does not address this, because the EO needed to be revised before a definition of supplanting was approved by the 2014 legislature. However, EO 1099 does state that self-supporting
special sessions shall not supplant regular course offerings available on a non-self-supporting basis during the regular academic year, and that the CSU shall not require state-support matriculated students to enroll in self-support courses in order to fulfill the graduation requirements of a state-supported degree program. Also, EO 1099 confirms the name change of CE funds from CERF to Extended Education Local Trust Fund.

Due to the timing of EO 1099, the audit scope will cover activities and transactions that occurred prior to the new policy, and therefore were subject to the superseded EOs. The relevant EOs that pertain to CE are noted below, along with other remaining criteria.

EO 341, Use of Surpluses in the Continuing Education Revenue Fund, dated March 31, 1981, outlines the expectations that CERF surpluses, at both the system and the campus levels, shall be used exclusively for the support and development of self-supporting continuing education.

EO 795, Procedures Governing Self-Supporting Programs Outside the State of California, Conducted Through the Continuing Education Revenue Fund or Local Trust Accounts, dated November 12, 2001, defines out-of-state and out-of-country self-supporting instructional programs, specifies the procedures for depositing funds into CERF, and establishes that these programs are subject to the same policies applicable to in-state governing self-supporting instructional programs.

EO 805, Policy Governing the Enrollment of Non-Matriculated Students in CSU State-Supported Courses and in CSU Self-Support Special Sessions Courses, dated February 14, 2002, establishes the conditions under which non-matriculated students may enroll in CSU state-supported courses or in self-support special sessions. It includes provisions to ensure that the potential enrollment of non-matriculated students does not impact the availability of seats for matriculating students or the class size in a state-support course; nor that it be used as a basis for determining the number of available course sections. The EO also states that the CE revenues generated from the fees from non-matriculated students be allocated in a manner that fairly reimburses the general fund for any costs associated with the students’ inclusion in the class.

EO 806, Certificates and Certificate Programs, dated February 14, 2002, defines the requirements for offering CE certificate programs and allows the campus, at its discretion, to allow academic credit for certain programs. It further encourages campuses to establish policies and procedures for certificate programs.

EO 1047, Special Sessions, dated May 10, 2010, addresses the procedures to be followed by each campus of the CSU in offering special sessions courses and programs including during summer sessions and winter intersession.

Education Code (EC) §89704 requires that revenues received from CE operations may be deposited into CERF, and that proceeds are to be used for the support and development of self-supporting instructional programs of the CSU. It also allows for the revenues to be pledged for the acquisition, construction, and improvement of facilities for CE programs, special sessions, and other instructional programs pursuant to the State University Revenue Bond Act of 1947. EC §89721 allows the option to place CE revenues in local trust accounts as an alternative to CERF.
EC §89708 requires that tuition fees charged for CE special sessions shall be adequate, in the long run, to meet the cost of maintaining the programs, and further states that self-supporting special sessions shall not supplant regular course offerings available on a non-self-supporting basis during the regular academic year.

The CSU provides advisory oversight to CE via various commissions and task forces. The Commission on the Extended University, confirmed by EO 811 in 2002, has served as the advisory group to the chancellor on issues and opportunities facing CE at each campus. The commission is chaired by a campus president; membership includes, but is not limited to, faculty nominated by the academic senate, vice presidents for academic affairs, campus deans for CE, and one other campus president. At the chancellor’s office, the Extended Education department in Academic Affairs, under the state university dean, provides leadership and advisement to CO executives, the Commission on the Extended University, campus presidents and senior management, and other internal and external groups in furthering the mission of the CSU through self-support activities. It also provides guidance to campuses regarding applicable CO policies and state and federal laws.

In 2005, the OAAS conducted an audit of CE at six campuses and issued a systemwide report. The report noted issues related to large reserve accumulations without commensurate spend-down plans or policies on negative balances; inadequate or non-existent cost allocation plans; the investment opportunities of using local trust funds rather than the state treasury CERF fund; the use of campus names and logos on auxiliary-owned CE educational program marketing materials; and cash control and revenue reconciliation exceptions.
Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to CE and to determine the adequacy of controls that 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:

- Administration of CE is well-defined and includes clear lines of organizational authority and responsibility and documented delegations of authority.
- Policies and procedures relating to CE are current and comprehensive and are effectively communicated to appropriate stakeholders.
- Auxiliary organization involvement in CE operations and programs is in accordance with CSU policy and directives.
- CE course offerings are selected and administered in accordance with CSU policies and state regulations, and state-supported degrees and courses are not supplanting those offered on the state side.
- CE program faculty and instructor selection processes ensure compliance with CSU policies and collective bargaining agreements.
- Budgets are established based on enrollment and revenue projections, and fiscal-year-end balances are subject to carry-forward expenditure plan requirements, when applicable.
- Revenues from CE programs and activities are appropriately and exclusively expended for the support and development of self-support instructional programs.
- Fees for CE courses and programs are established in accordance with CSU policy.
- CE student enrollment systems are adequately secured from unauthorized access.
The proposed scope of the audit as presented in Audit Agenda Item 4 of the January 28 and 29, 2014, meeting of the Committee on Audit stated that Continuing Education (CE) includes review of the processes for administration of CE and extended learning operations as self-supporting entities; budgeting procedures, fee authorizations, and selection and management of courses; faculty workloads and payments to faculty and other instructors; enrollment procedures and maintenance of student records; and reporting of CE activity and maintenance of CERF contingency reserves.

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 whether fiscal, operational, and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with federal and state regulations and guidance, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from January 1, 2012, through October 31, 2014.

We focused primarily on the internal administrative, compliance, and operational controls over CE activities. Specifically, we reviewed and tested:

- Compliance with policies designed to prevent the supplanting of state-support degrees and courses with self-support counterparts.
- Budgeting processes, including revenue projection methodologies and proper identification and reporting of fund balances at fiscal year-end.
- CE expenditures to ensure they are in accordance with requirements that revenues and funding are used for the support and development of self-support instructional programs.
- Partnership agreements and cost allocation plans that support transfers and expenditures from CERF.
- Faculty and instructor pay.
- Fee establishment processes for CE courses and programs.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

BUSINESS MODEL AND CURRICULUM

The campus did not comply with conditions for enrollment of non-matriculated students in state-supported courses.

We reviewed the ratio of matriculated to non-matriculated students in courses over academic years 2011/12, 2012/13 and 2013/14, and we found 49 courses for which the percentage of non-matriculated students was greater than 50 percent. Of these, 27 of the courses had 100 percent non-matriculated student enrollment. We selected 15 of these for further review, and we found that:

- In two nursing courses, 100 percent of the students were non-matriculated students who enrolled through open university (OU). The number of enrolled OU students ranged from 18 to 20.
- In eight supervisory courses, one non-matriculated student comprised the entire enrollment.
- In four academic courses, the class remained open with from one to four students, at least half of which were enrolled through OU, even though the listed limits for enrollment indicated a much larger capacity (19-40 seats).

Executive Order (EO) 805, Policy Governing the Enrollment of Non-Matriculated Students in California State University (CSU) State-Supported Courses and in CSU Self-Support Special Sessions Courses, dated February 14, 2002, states that enrollment or potential enrollment of non-matriculated students in state-supported courses shall not be the basis for the addition of a course that would otherwise be canceled because of low enrollment of regularly matriculated students.

The assistant vice president for academic operations and finance stated that the lack of monitoring of non-matriculated student enrollment in the identified courses was due to division oversight.

The lack of compliance with conditions allowing non-matriculated students into state-supported courses exposes the campus to questions regarding whether state funding is being used properly.

Recommendation 1

We recommend that the campus comply with conditions for enrollment of non-matriculated students in state-supported courses.

Campus Response

We concur. University Extended Education will be responsible for ensuring compliance with EO 805 and will review and/or implement needed oversight strategies.

Anticipated completion date: June 15, 2015
FISCAL ADMINISTRATION

The campus did not fully comply with CSU policies when establishing fees for self-support programs.

Specifically, we noted that:

- The campus could not demonstrate that the chief financial officer (CFO) developed a statement of revenues and expenditures for consideration by the president prior to the establishment of fees for summer session and open university.

- There was no evidence that the campus fee advisory committee was informed of the changes to the fees.

EO 1054, *The California State University Fee Policy*, dated January 14, 2011, states that the campus president is delegated authority for the establishment, oversight, and adjustment of category IV and V fees. It further states that a statement of revenues and expenditures, including a minimum of one year of actual costs and two years of projected revenue and expenditures for the fee revenue supported activity, shall be developed by the campus CFO and considered by the president prior to establishing or adjusting any fee. Furthermore, it states that the president will make a determination on category IV and V fees after consideration of the revenue and expenditure plans associated with the fees and will then notify the fee advisory committee of his or her decision.

The lack of compliance with system policies regarding the vetting and approval of student fees exposes the campus to claims of inappropriate disclosure and unjustified fee elevation.

**Recommendation 2**

We recommend that the campus comply with CSU policies when establishing fees for self-support degree programs.

**Campus Response**

We concur. The campus will develop a statement of revenue and expenditures for consideration by the president prior to the establishment of fees for summer session and open university. We will also inform our campus fee advisory committee of the president’s decision.

Anticipated completion date: May 31, 2015
## APPENDIX A: PERSONNEL CONTACTED

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<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Mildred Garcia</td>
<td>President</td>
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<tr>
<td>Steven Chan</td>
<td>Director, Budget, Finance, and Student Services, University Extended Education (UEE)</td>
</tr>
<tr>
<td>Carol Creighton</td>
<td>Associate Dean, UEE</td>
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<tr>
<td>Laurinda Fuller</td>
<td>Director, Internal Audit</td>
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<tr>
<td>Danny Kim</td>
<td>Vice President, Administration and Finance/Chief Financial Officer</td>
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<tr>
<td>Kari Knutson Miller</td>
<td>Interim Dean of UEE</td>
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<tr>
<td>Lisa Kopecky</td>
<td>Assistant Vice President, Academic Operations and Finance</td>
</tr>
<tr>
<td>Sally Starr</td>
<td>Director, Community Outreach and Workforce Strategy, UEE</td>
</tr>
<tr>
<td>Stephanie Vaughn</td>
<td>Coordinator, Post-Licensure Nursing Program, School of Nursing</td>
</tr>
<tr>
<td>Steven Yim</td>
<td>Controller</td>
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January 29, 2015

Larry Mandel, Vice Chancellor and Chief Audit Officer
Office of Audit and Advisory Services
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

SUBJECT: Campus Response to Recommendations of Continuing Education Audit, Report 14-60

Dear Mr. Mandel:

Please find enclosed California State University, Fullerton’s official response to the two (2) recommendations contained in the Continuing Education Audit, Report 14-60.

We would like to thank the Vice Chancellor and Chief Audit Officer and his staff for conducting the audit in a professional manner and identifying areas where our procedures or internal controls could be strengthened. The campus is committed to addressing the issues identified in the audit report.

If you have any questions or require additional information, please contact Laurinda Fuller, Director of Internal Audit, at (657) 278-4697 or lfuller@fullerton.edu.

Sincerely,

Danny Kim
Vice President Administration & Finance/Chief Financial Officer

Attachment

cc: Mildred Garcia, President
Jose L. Cruz, Provost & Vice President for Academic Affairs
Kari Knutson-Miller, Interim Associate VP International Programs/Dean of University Extended Education
Laurinda L. Fuller, Director Internal Audit
BUSINESS MODEL AND CURRICULUM

Recommendation 1

We recommend that the campus comply with conditions for enrollment of non-matriculated students in state-supported courses.

Campus Response

We concur with this finding. University Extended Education will be responsible for ensuring compliance with Executive Order 805 and will review and/or implement needed oversight strategies.

Anticipated completion date: June 15, 2015

FISCAL ADMINISTRATION

Recommendation 2

We recommend that the campus comply with CSU policies when establishing fees for self-support degree programs.

Campus Response

We concur. The campus will develop a statement of revenue and expenditures for consideration by the president prior to the establishment of fees for summer session and open university. We will also inform our campus fee advisory committee of the president’s decision.

Anticipated completion date: May 31, 2015
March 10, 2015

MEMORANDUM

TO: Mr. Larry Mandel
    Vice Chancellor and Chief Audit Office

FROM: Timothy P. White
      Chancellor

SUBJECT: Draft Final Report 14-60 on Continuing Education,
         California State University, Fullerton

In response to your memorandum of March 10, 2015, I accept the response
as submitted with the draft final report on Continuing Education, California State
University, Fullerton.

TPW/amd