CONTINUING EDUCATION

CALIFORNIA STATE UNIVERSITY, STANISLAUS

Audit Report 14-62
February 17, 2015

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ABBREVIATIONS

AVP          Associate Vice President
CE           Continuing Education
CERF         Continuing Education Revenue Fund
CO           Chancellor’s Office
CSA          California State Auditor
CSU          California State University
EO           Executive Order
EC           Education Code
GC           Government Code
OAAS         Office of Audit and Advisory Services
UEE          University Extended Education
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, Stanislaus campus from November 17, 2014, through December 12, 2014, and audited the procedures in effect at that time.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls for CE activities as of December 12, 2014, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report. Areas of concern include: general environment 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.

GENERAL ENVIRONMENT [7]

Policies and procedures related to University Extended Education (UEE) had not been updated.

FISCAL ADMINISTRATION [8]

The delegation of authority for self-supported program fee approval needed to be updated. In addition, the campus did not document the nexus between expenditures made from campus revenue-share trust accounts and the specific CE self-supported program functions that benefitted from the expenditures.
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-supported 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-supported 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-supported courses with self-supported 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-supported
special sessions shall not supplant regular course offerings available on a non-self-supported basis during the regular academic year, and that the CSU shall not require state-supported matriculated students to enroll in self-supported 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 (EELTF).

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-supported 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-supported 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-supported 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-supported 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-supported 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-supported 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-supported special sessions shall not supplant regular course offerings available on a non-self-supported 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-supported 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-supported 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-supported 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 December 12, 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-supported degrees and courses with self-supported 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-supported 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

GENERAL ENVIRONMENT

Policies and procedures related to University Extended Education (UEE) had not been updated.

Specifically, we noted that:

- The UEE operations manual had not been updated since 2002, and the manual referenced or included as policy numerous outdated systemwide executive orders (EO).

- The cost allocation policy had not been annually updated to reflect the current list of entities included in the allocation plan.

Government Codes (GC) §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. It further states that administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

State Administrative Manual §20050 states that symptoms of control deficiencies include policy and procedural or operational manuals that are either not currently maintained or are nonexistent.

*California State University, Stanislaus Allocation of Costs to Auxiliary Enterprises*, dated July 1, 2006, states that the policy addendum listing entities to be included in the allocation plan shall be updated annually.

The associate vice president (AVP) for financial services stated that the campus recently began revisions to the UEE operations manual and the cost allocation policy to include references to the most current EOs and California State University (CSU) policies; however, due to competing priorities in the department, the policies were still in the review stages.

Outdated policies increase the risk that UEE practices are not in line with current CSU and governmental requirements.

**Recommendation 1**

We recommend that the campus update policies and procedures related to UEE operations.

**Campus Response**

The campus will update policies and procedures related to UEE operations and cost allocation.

Completion date: June 30, 2015
FISCAL ADMINISTRATION

FEE APPROVALS

The delegation of authority for self-supported program fee approval needed to be updated.

Specifically, UEE was operating on a presidential delegation of authority dated April 6, 2000, that authorized a former dean of UEE to approve adjustments to UEE fees. This delegation had not been updated to authorize the current interim executive-in-charge.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. It further states that administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

The executive-in-charge of UEE stated that the delegation memorandum designating the former dean of UEE to approve UEE fees was outdated due to changes in personnel.

The lack of a current designation increases the risk of misunderstandings related to approval of UEE fees.

Recommendation 2

We recommend that the campus update the delegation of authority for self-supported program fee approval.

Campus Response

The campus will update the delegation of authority for self-supported program fee approval.

Completion date: June 30, 2015

CAMPUS REVENUE SHARE TRUST ACCOUNTS

The campus did not document the nexus between expenditures made from campus revenue-share trust accounts and the specific continuing education (CE) self-supported program functions that benefitted from the expenditures.

We reviewed 30 transactions made from various campus revenue-share trust accounts and a separate account maintained for the discretion of the provost for self-supported programs. We found six transactions for which the campus could not provide documentation to support the benefit to self-supported programs:
Provost fund
- $12,095 for Apple computer purchases for the art department
- $7,660 for Apple computer purchases for the College of Arts, Humanities and Social Sciences
- $7,548 for Apple computer purchases for various academic departments

Information Technology
- $13,661 for 19 computers for a staff training facility

Graduate Studies
- $3,150 for Dell computer purchases for enrollment services

College of Science
- $999 for a retirement party that was not related to a UEE program

EC §89704 requires that revenues received from CE operations be deposited into the Continuing Education Reserve Fund and that proceeds be used for the support and development of self-supported instructional programs of the CSU.

The California State Legal Manual, Chapter 6, *Extended Education*, states that extended education funds are specifically restricted for the support and development of extended education instructional programs.

*CERF Program Reinvestment Allocation Guideline*, dated July 1, 2010, states that program reinvestment is funding for the development of new or enhancement of existing self-supported programs.

The AVP for financial services stated that additional documentation to show the connection between the expenditures and a self-supported program was not included with the transaction support due to the lack of training and experience of staff reviewing the transactions.

Incomplete documentation to support the proper usage of CE funds increases the risk of inappropriate expenditures and jeopardizes the viability of campus self-supported instructional programs in accordance with education code requirements.

**Recommendation 3**

We recommend that the campus document the nexus between expenditures made from campus revenue-share trust accounts and the specific CE self-supported program functions that benefit from the expenditures.

**Campus Response**

The campus will develop a procedure to document the nexus between expenditures made from campus revenue-share trust accounts and the specific CE self-supported program functions that benefit from the expenditures.

Completion date: June 30, 2015
## APPENDIX A: PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Joseph F. Sheley</td>
<td>President</td>
</tr>
<tr>
<td>Julie Benevides</td>
<td>Assistant Vice President for Financial Services and Executive-In-Charge of Business and Finance</td>
</tr>
<tr>
<td>Jacob Copple</td>
<td>Student Assistant, University Extended Education (UEE)</td>
</tr>
<tr>
<td>Chuck Gonzalez</td>
<td>Executive-in-Charge, UEE</td>
</tr>
<tr>
<td>Briquel Hutton</td>
<td>Director, Audit Services/Executive Director, Foundation</td>
</tr>
<tr>
<td>Julie Keo</td>
<td>Administrative Support Assistant, UEE</td>
</tr>
<tr>
<td>Regan Linderman</td>
<td>Controller</td>
</tr>
<tr>
<td>Lynette Richmond</td>
<td>Budget Analyst, UEE</td>
</tr>
<tr>
<td>James Strong</td>
<td>Provost and Vice President for Academic Affairs</td>
</tr>
</tbody>
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March 24, 2015

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

RE: Continuing Education Audit Report 14-62

Dear Mr. Mandel,

Enclosed please find the campus responses to the Continuing Education Audit Report (14-62) for California State University, Stanislaus.

If you have any questions please do not hesitate to contact myself or Briquel Hutton, Director of Audit Services at (209) 664-6783.

Sincerely,

Julie Benevides  
Interim Vice President of Business and Finance

JB/bh
Enclosures: 1

cc: Dr. Joseph F. Sheley, President  
Dr. James T. Strong, Provost  
Chuck Gonzalez, Interim Director University Extended Education
GENERAL ENVIRONMENT

Recommendation 1

We recommend that the campus update policies and procedures related to UEE operations.

Campus Response

The campus will update policies and procedures related to UEE operations and Cost Allocation.

Completion date: June 30, 2015

FISCAL ADMINISTRATION

FEE APPROVALS

Recommendation 2

We recommend that the campus update the delegation of authority for self-supported program fee approval.

Campus Response

The campus will update the delegation of authority for self-supported program fee approval.

Completion date: June 30, 2015

CAMPUS REVENUE SHARE TRUST ACCOUNTS

Recommendation 3

We recommend that the campus document the nexus between expenditures made from campus revenue-share trust accounts and the specific CE self-supported program functions that benefit from the expenditures.

Campus Response

The campus will develop a procedure to document the nexus between expenditures made from campus revenue-share trust accounts and the specific CE self-supported program functions that benefit from the expenditures.

Completion date: June 30, 2015
April 9, 2015

MEMORANDUM

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

FROM: Timothy P. White  
       Chancellor

SUBJECT: Draft Final Report 14-62 on Continuing Education, California State University, Stanislaus

In response to your memorandum of April 9, 2015, I accept the response as submitted with the draft final report on Continuing Education, California State University, Stanislaus.

TPW/amd