

**CONTINUING EDUCATION**  
**CALIFORNIA STATE UNIVERSITY,**  
**FULLERTON**

**Report Number 98-14**  
**June 24, 1998**

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## **ABBREVIATIONS**

ALP	American Language Program
CE	Continuing Education
CERF	Continuing Education Revenue Fund
CLE	Continuing Learning Experience
CSU	California State University
CSUF	California State University, Fullerton
EE	Extended Education
EO	Executive Order
GAAP	Generally Accepted Accounting Principles
LTC	Learning Technology Center
SAM	State Administrative Manual
SUAM	State University Administrative Manual
TOEFL	Test of English as a Foreign Language
UEE	University Extended Education

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## INTRODUCTION

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### PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of Continuing Education programs and to determine the adequacy of controls over Continuing Education Revenue Fund (CERF) operations.

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

- ▶ the campus maintains a clear distinction between campus owned and auxiliary owned programs and has written agreements with auxiliary organizations for the administration and management of Continuing Education programs;
- ▶ technology delivered distance education controls are similar to those maintained over traditionally delivered education;
- ▶ budgeting procedures include all course costs and revenues to identify potential course losses in advance and ensure that course selection and management are in accordance with CSU policies and state regulations;
- ▶ the CSU additional employment policy regarding the faculty selection process is complied with, faculty payments are made in accordance with CSU directives, and written agreements stipulate set fees when independent contractors are used as instructors;
- ▶ enrollment procedures and maintenance of student records adequately meet accounting, academic and informational needs;
- ▶ cash receipts, refunds, dishonored checks and other debts are adequately controlled and properly accounted for;
- ▶ cash disbursements are adequately controlled and made solely for the support and development of self-supporting CSU programs;
- ▶ the general fund is reimbursed for all supplies, services and overhead expenses related to extended education programs; and
- ▶ continuing education activity is accurately reported and the CERF contingency reserve balance is maintained in compliance with CSU directives.

## SCOPE AND METHODOLOGY

This review emphasized but was not limited to compliance with state laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters and directives.

The analyses and recommendations outlined by the CSU Task Force Report on Continuing Education, dated December 16, 1996, was used to evaluate the documentation of business activities between the campus and such non-state auxiliary organizations as the foundation.

A key issue for this review involves compliance with California Education Code § 89704, State University Continuing Education Revenue Fund (CERF), which states in part "...revenues received by the Trustees of the California State University from extension programs, special sessions, and other self-supporting instructional programs, including but not limited to, fees and charges required by the trustees, shall be transmitted to the Treasurer and shall be deposited by that officer in the State Treasury to the credit of the State University Continuing Education Revenue Fund ....".

June 1997 to date was the primary period of review.

Our focus involved a wide variety of issues dealing with CERF operations as a self-supporting entity. Specifically, we reviewed and tested:

- ▶ use of the foundation for the administration and management of Continuing Education programs;
- ▶ budgeting procedures, fee authorization, and the selection and management of courses including technology delivered distance education.
- ▶ management of faculty workload and payments to faculty and other instructors;
- ▶ enrollment procedures and maintenance of student records;
- ▶ procedures for controlling and processing cash receipts, refunds, dishonored checks, and other debts;
- ▶ procedures for controlling and processing cash disbursements, reimbursements to the general fund and revenues shared with academic departments; and
- ▶ reporting of continuing education activity and the maintenance of the CERF contingency reserve.

## **BACKGROUND**

In response to the systemwide risk assessment conducted during 1996, which included input from officers representing the chancellor's office and each CSU campus, this review of Continuing Education was directed by the Board of Trustees at its January 1998 meeting. Continuing Education was previously audited in 1984.

In March 1996, the Bureau of State Audits issued a report of the Continuing Education program at one of our CSU campuses. This report raised a number of issues that have systemwide policy implications. The primary audit findings addressed operational relationships between the campus and its foundation and various non-compliance issues with CSU policy. A CSU task force was subsequently established in May 1996 to review the audit findings and policies and statutes impacting the Continuing Education program. In February 1997, the Senior Vice Chancellor, Business and Finance, issued the "CSU Task Force Report on Continuing Education" to all campus presidents.

In addition, the CSU Commission on the Extended University hired a consultant to clarify the implications of the March 1996 State Bureau of Audit report on continuing education. In September 1997, the consultant issued a report titled "Managing Continuing Education Fiscal Accounts" to the members of the commission. The consultant report was subsequently distributed to the various CSU EE/CE Deans and Directors by the State University Dean of Extended Education.

Some CSU campuses refer to the Continuing Education program as Extended Education or other similar titles. Throughout this report, we will refer to the program as continuing education. At California State University, Fullerton, the University Extended Education (UEE) Office manages the Continuing Education program.

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## **OPINION**

We visited the California State University, Fullerton campus from March 9, 1998, through April 8, 1998, and audited the procedures in effect at that time.

We found that, with the exception of the items noted in the Executive Summary and in the details of the report, compliance with state, CSU and campus policies and procedures was satisfactory.

The objective of this report is to identify and mitigate issues that affect the administration of Continuing Education programs and CERF operations. If such issues are not corrected, the effectiveness of policies and procedures may be negatively impacted.

## **EXECUTIVE SUMMARY**

The purpose of this section is to provide 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 PROGRAMS AND ADMINISTRATION**

### **FISCAL SERVICES [6]**

The University Extended Education (UEE) office utilized the CSU Fullerton Foundation to provide fiscal services for various programs without receiving the proper or written authority. Ensuring that written agreements fully define program ownership and the services authorized between UEE and the CSUF Foundation reduces the risk of inappropriate management of state funds.

### **FCC LICENSES [7]**

Funds generated from the lease of campus owned excess microwave channel capacity were not deposited into state accounts. Depositing revenues received from the leasing of excess microwave channel capacity into state accounts helps to ensure that state funds are appropriately managed.

### **FOUNDATION OPERATING AGREEMENT AND LEASE [8]**

The general operating agreement and lease between the campus and the foundation was not current. The risk of misunderstandings and inconsistencies in the application of contract provisions is reduced when current practices are reflected in written agreements.

## **EXPENDITURES [9]**

Continuing education funds maintained in foundation accounts were not always used for the support and development of self-supporting instructional programs. Maintaining continuing education monies in state accounts reduces the risk of inappropriate expenditures.

## **REVENUE DISTRIBUTION AND RETAINED EARNINGS**

### **GENERAL FUND REIMBURSEMENT [10]**

General fund reimbursements for support services provided to UEE were not properly documented. Documenting general fund reimbursement procedures ensures that the general fund is fully reimbursed for costs associated with continuing education.

## **INTERSESSION REVENUE SHARING [12]**

Intersession revenue sharing rates were not properly documented. The proper documentation of these rates ensures that academic departments are fully compensated for costs incurred in support of the intersession program.

## **COURSE SELECTION AND MANAGEMENT [13]**

UEE did not have formalized procedures for either accepting or canceling courses for which losses are projected. Documenting the benefits of offering a course at a financial loss helps to ensure that the overall program remains self-supporting.

## **ENROLLMENT AND STUDENT RECORDS [14]**

A non-discrimination statement and information regarding the disabled students services office were not included in the 1998 Intersession catalog. Including the required statements in all catalogs ensures compliance with federal regulations and provides disabled students with information regarding required assistance.

## **FUND INTEGRITY [15]**

Fund integrity was not maintained between the general fund, the continuing education revenue fund (CERF) and the CSUF foundation. Following procedures that adhere to generally accepted accounting principles (GAAP) provides greater fund integrity.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### CONTINUING EDUCATION PROGRAMS AND ADMINISTRATION

#### FISCAL SERVICES

The University Extended Education (UEE) office utilized the CSU Fullerton Foundation to provide fiscal services for various programs without receiving the proper or written authority. We found that:

- ▶ Revenue from non-credit extension, summer youth, Arboretum, Test of English as a Foreign Language (TOEFL) and accent reduction programs, test preparation courses and the Continuing Learning Experience (CLE) were deposited into UEE accounts maintained in the foundation. Corresponding program expenses were paid from these accounts. As of January 31, 1998, balances in these accounts totaled \$413,484.
- ▶ As of January 31, 1998, UEE accounts at the foundation included a reserve account in addition to an account designated for a copier machine. Balances in these accounts totaled \$153,500 and \$11,000 respectively. With the exception of interest earnings, these balances remained virtually unchanged for at least two years.
- ▶ There was no written agreement between the UEE and the CSUF Foundation that fully defined program ownership, foundation services and corresponding fees.

Education Code §89704 states that revenues received from extension programs, special session, and other self-supporting instructional programs shall be deposited to the continuing education revenue fund (CERF).

Title 5 §42500 states that it is appropriate for auxiliary organizations to perform various functions including externally funded projects such as research, workshops, conferences, institutes and other instructionally related programs. In addition, Title 5 §42501 states that a written agreement between the CSU and the auxiliary is required for the performance of any function listed in Title 5 §42500.

The CSU Task Force Report on Continuing Education recommends that ownership of a given program be clearly defined. This report stated, in part, that the funds must be deposited in the CERF if it is a campus-owned program. The campus should not use its auxiliary as a bank. Pursuant to Title 5, an auxiliary may administer workshops, conferences, institutes, and instructionally related programs. However, any such services required from an auxiliary should be properly documented in a contract.

The dean of university extended education stated that the services of the foundation have always been used to facilitate the fiscal administration of the non-credit programs. The dean stated that written agreements had not been prepared because he believed that the services were covered by the general operating agreement between the campus and the foundation. He indicated that he has been looking at other models based on the CSU Task Force Report. The dean further stated that the reserve monies are

not specifically earmarked, but he does not want to transfer these monies to the CERF until three foundation employees who work on non-credit extension programs either retire or terminate employment. These employees are paid from the non-credit extension program revenues. The UEE accountant indicated that the account designated for a copier was established in December 1993, but a copier was never purchased.

Without written agreements that clearly define program ownership and services authorized to be managed by the foundation, the campus risks inappropriate expenditures of state funds and loss of interest and other revenues that are based on foundation overhead charges.

### **Recommendation 1**

We recommend that the campus:

- a. establish a written agreement between the UEE and CSUF Foundation to define program ownership, services and corresponding fees managed by the CSUF Foundation.
- b. transfer balances from program, reserve and copier accounts defined as UEE owned to the CERF;
- c. deposit and retain all future revenues from Continuing Education programs directly into the CERF.

### **Campus Response**

- a. We concur. CSUF will have a written agreement in place by November 1, 1998.
- b. We concur. CSUF will establish the necessary accounting/administrative procedures and transfer the referenced balances to CERF on or before February 1, 1999.
- c. We concur. All programs for which CERF has "ownership" per the terms of the above referenced written agreement, will be deposited directly into the CERF on or before February 1, 1999.

### **FCC LICENSES**

Funds generated from the lease of campus owned excess microwave channel capacity were not deposited into state accounts.

The campus leases excess transmission capacity from microwave channels licensed to CSUF by the Federal Communications Commission (FCC). Lease payments are made payable to the campus and deposited directly into an account at the foundation. Interest earnings from these payments are credited to the foundation account. The foundation, which manages the investment of these funds, retains the first 2% of interest earnings, which totaled \$28,000 for 1997. As of January 31, 1998, the account balance was \$1.8 million.

SAM §8001 states that, unless otherwise authorized by the Director of Finance or deposited directly in the State Treasury, all money in the possession of or controlled by any agency will be deposited in the centralized State Treasury System.

Government Code §16305.1 states that all money in the possession of or collected by any state agency or department is subject to the provisions of §16305.3 to 16305.7, inclusive, and is hereafter referred to as state money.

Government Code §16305.3 states that all state money shall be deposited in trust in the custody of the treasurer, except when otherwise authorized by the director of finance.

Neither the campus chief financial officer nor the dean of UEE could provide documentation authorizing the deposit of these funds in the foundation.

Depositing revenue from the leasing of excess channel capacity directly to the CSUF Foundation increases the risk of inappropriate expenditures of state funds and loss of interest and other revenues that are based on foundation overhead charges.

## **Recommendation 2**

We recommend that the campus:

- a. deposit future microwave channel lease payments into a state account; and
- b. transfer the balance of microwave channel lease funds from the foundation to a state account.

## **Campus Response**

- a. CSUF will comply and will deposit all future microwave channel lease payments owned by the campus into a state account, effective immediately.
- b. CSUF will transfer the balance of microwave channel lease funds from the CSUF Foundation to a state account on or before October 1, 1998.

## **FOUNDATION OPERATING AGREEMENT AND LEASE**

The general operating agreement and lease between the campus and the foundation was not current. The agreement and lease expired on June 30, 1992, and has continued on a month-to-month basis.

Title 5 §42501 states that a written agreement between the CSU and the auxiliary is required for the performance of any function listed in Title 5 §42500.

The campus insurance and facility use officer stated that the agreement had not been revised and renewed because discussions regarding several clauses were continuing with the CSUF foundation.

Failure to maintain current written agreements can result in misunderstandings and inconsistencies between existing contract language and the intentions of both campus and foundation management.

### **Recommendation 3**

We recommend that the general operating and lease agreement between the campus and the CSUF Foundation be promptly revised and renewed.

### **Campus Response**

We concur. The campus has prepared an updated agreement which is under review and will be finalized on or before November 1, 1998.

## **EXPENDITURES**

Continuing education funds maintained in foundation accounts were not always used for the support and development of self-supporting instructional programs. We noted that:

- ▶ \$1,226 in processing fees was paid to process American Express charges for CSUF University Advancement activities;
- ▶ \$1,616 was disbursed for a Christmas party; and
- ▶ \$12,400 was disbursed to attend the Walter Cronkite: Front & Center event to raise money for the university.

Education Code §89704 states that all revenues received from extension programs, special sessions, and other self-supporting instructional programs are appropriated for the support and development of self-supporting instructional programs of the CSU.

CSU directive BA 91-13, *Revised Policy on the Management of the Continuing Education Revenue Fund*, dated August 7, 1991, includes specific criteria for the expenditure of CERF monies. This directive states that funds used to support a project that benefits both continuing education and state support program students must have continuing education benefits commensurate with the level of CERF expenditures.

The extended education accountant stated that the credit card charges were processed as an accommodation to CSUF University Advancement Foundation. The dean of extended education stated that no other source of discretionary funds existed for the Christmas party. He further stated that,

because extended education staff members and potential donors attended the Walter Cronkite: Front & Center event, this function was related to the support and development of Continuing Education programs.

Not maintaining continuing education monies in state accounts increases the risk of inappropriate expenditures.

#### **Recommendation 4**

We recommend that that campus strengthen existing procedures to ensure that expenditures of continuing education funds are for appropriate purposes.

#### **Campus Response**

Pursuant to the recommendations and proposed corrective action plans of this audit, on or before February 1, 1999 all UEE program expenditures will be made from state accounts and hence will subject to review for compliance with campus, system and state policy/law. Further, any direct support provided by UEE to the campus in an effort to improve administrative efficiency, as was the case with the American Express charge situation, will be reimbursed to UEE.

## **REVENUE DISTRIBUTION AND RETAINED EARNINGS**

### **GENERAL FUND REIMBURSEMENT**

General fund reimbursements for support services provided by campus administrative and academic departments to UEE were not properly documented. We noted that:

- ▶ General fund reimbursement for campus administrative support services is provided via an allocation of 2% of UEE revenue and a budget transfer of \$137,000 to the campus finance office; position support; and various allocations to the academic affairs office. In addition, the dean of UEE manages the Learning Technology Center (LTC) and the Arboretum. Total reimbursement meets CSU directive requirements. However, there was no written agreement between the campus and UEE containing the basis and rationale for the valuation of services.
- ▶ General fund reimbursement for summer session is provided via allocations of 7% of summer session revenue to the colleges; 2% to the campus finance office; 1% split between admissions and records, the computer center, the library and the LTC; position support; and an allocation to the academic affairs office. In addition, the dean of UEE manages the LTC and the Arboretum. Total reimbursement meets CSU directive requirements. However, there was no written agreement between the campus and UEE containing the basis and rationale for the valuation of services.

CSU memo BP 67-73, *Reimbursement for State Services Rendered Extension Program Activities*, dated November 28, 1967, attached schedule and SUAM §1508.02.04 state that 4% of total extension program revenue should be reimbursed to the general fund for support services. Support services is defined to include the following functions: accounting, personnel, cashiering, budgeting, payroll, purchasing, the records area of admissions and records, and administrative computing support.

CSU memo BA 73-13, *Support Services in Summer Session Budget*, dated April 13, 1973, and SUAM §1508.02.03 state that, depending on the amount of revenues generated, 8% to 12% of summer session revenue should be reimbursed to the general fund for support services. Support services is understood to include all personal services, operating expense, and equipment that are included in academic support, student services, and institutional support; and all personal services for administration at the department and school level. Based on CSUF summer session revenue, a minimum of 12% of revenue should be reimbursed to the general fund.

CSU memo BA 83-30, *Policy on Chargeable Services to Self-Supporting Operations*, dated December 28, 1983, policy attachment item 4 states that recovery for the cost of support to continuing education shall be governed by existing specific CSU policies. If trade-offs are appropriate, they shall be clearly documented, valued in accordance with supportable cost studies, and otherwise not in conflict with state, system or campus regulations. Consensus should be reached between service provider and recipient as to the service levels and method of calculation. Support provided shall be in accordance with appropriate written agreements that include the basis and rationale for the valuation. The agreements should be on file in the campus business office and available for audit.

The campus chief financial officer stated that the 2% reimbursement rate was determined by a study conducted approximately ten years ago, and the supporting details were archived or possibly destroyed. She also stated that written agreements including the basis and rationale for the other valuations have not been prepared. The dean of UEE stated that supporting documentation has been archived and can not be located for the 10% summer session reimbursement.

Not documenting general fund reimbursement procedures could result in the general fund not being fully compensated for support provided to continuing education and reduce working capital available to the campus.

### **Recommendation 5**

We recommend that the campus take the following actions:

- a. determine the amount of services provided to UEE by each campus service area provider taking into consideration any specific CSU policy;
- b. prepare appropriate written agreements containing the basis and rationale for the valuation of services; and

- c. maintain the written agreements on file in the campus business office.

### **Campus Response**

- a. CSUF will update its analysis of services provided to UEE by each campus service area provider, taking into consideration any specific CSU policy, and will concomitantly analyze the services and benefits accorded CSUF by LJEE.
- b. CSUF will prepare and update appropriate written agreements containing the basis and rationale for the valuation of services and will have these in place by November 1, 1998.
- c. CSUF will maintain the written agreements on file in the campus business office.

### **INTERSESSION REVENUE SHARING**

Intersession revenue sharing rates were not properly documented.

The Academic Affairs office currently receives 3% of intersession revenue and participating academic departments share another 4% of this revenue.

CSU policy does not address reimbursements to academic departments for costs incurred in support of intersession programs. However, it does so for summer session programs.

CSU memo BA 83-30, *Policy on Chargeable Services to Self-Supporting Operations*, dated December 28, 1983, policy attachment states that funds provided from the general fund may be used to provide support for continuing education if there is a recovery of the cost of such support. In the absence of specific CSU policy, recovery for the cost of support shall include the incremental costs of providing the support. Consensus should be reached between service provider and recipient as to the service levels and method of calculation. Support provided shall be in accordance with appropriate written agreements that include the basis and rationale for the valuation. The agreements should be on file in the campus business office and available for audit.

The UEE accountant stated that supporting documentation was not available for the intersession revenue sharing rates.

Not documenting intersession revenue sharing procedures could result in academic departments not being fully compensated for costs incurred in support of the intersession program.

### **Recommendation 6**

We recommend that the campus establish formalized procedures for determining intersession revenue sharing with academic departments, prepare appropriate written agreements, and maintain the written agreements on file in the campus business office.

### **Campus Response**

We concur. CSUF will establish formalized procedures for determining intersession revenue sharing with academic departments, prepare appropriate written agreements, and maintain the written agreements on file in the campus business office by November 1, 1998.

## **COURSE SELECTION AND MANAGEMENT**

UEE did not have formalized procedures for either accepting or canceling courses for which losses are projected.

The December 1996 CSU Task Force Report on Continuing Education recommended that, if a specific course is not self-supporting, the benefits of offering a course at a financial loss should be documented.

Education Code §89708 requires special sessions and other instructional programs to be self-supporting.

The dean of extended education stated that the benefits of offering a course with a projected loss were discussed on a course-by-course basis but not documented.

Not documenting the benefits of offering a course at a financial loss may have an impact on whether a program is self-supporting. Lack of such documentation increases the risk that a course that should be cancelled is not.

### **Recommendation 7**

We recommend that the campus properly document the justification for offering a course at a financial loss.

### **Campus Response**

We concur. The campus will document the justification for offering a course at a financial loss effective on or before February 1, 1999.

## **ENROLLMENT AND STUDENT RECORDS**

A non-discrimination statement and information regarding the disabled students services office were not included in the 1998 Intersession catalog.

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

Because registration forms are part of the program catalog, information regarding services for disabled students is included within the extension program catalog rather than on the registration forms.

The director of public relations and marketing stated that the required disclosures were inadvertently left out of the intersession catalog.

Failure to include the disclosures increases the risk of non-compliance with federal regulations and hinders disabled students in obtaining required assistance.

### **Recommendation 8**

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

### **Campus Response**

The omission of the nondiscrimination statement and information regarding the disabled students services office from one UEE catalog was an unfortunate clerical oversight which CSUF regrets. TMs matter was corrected in all subsequent UEE publications.

## FUND INTEGRITY

Fund integrity was not maintained between the general fund, the continuing education revenue fund (CERF) and the CSUF foundation

We noted that:

- ▶ \$8,977 was disbursed from the CERF to purchase furniture for the Arboretum even though the corresponding revenues from Arboretum educational programs had been deposited in the foundation.
- ▶ Revenue sharing to academic departments for extension non-credit courses was disbursed from the CERF even though the corresponding revenues had been deposited in the foundation.
- ▶ Dishonored checks for extension students were held in the general fund instead of the CERF. The UEE office is responsible for collecting the dishonored checks, but the general fund retains the dishonored check fees.

Education Code §89761 requires CSU to adhere to Generally Accepted Accounting Principles (GAAP) which requires a proper matching of revenues to expenses.

The UEE accountant indicated that all revenue sharing is processed via budget transfer requests from the CERF. The director of student financial services stated that dishonored checks are currently held in the General Fund because only one subcode is available to account for dishonored checks.

Fund integrity is compromised when accounting procedures do not adhere to GAAP.

### **Recommendation 9**

We recommend that the campus strengthen existing procedures to assure appropriate fund integrity between the General Fund, CERF and the CSUF foundation.

### **Campus Response**

We concur. CSUF will strengthen existing procedures to assure appropriate fund integrity between the General Fund, CERF and the CSUF Foundation. Pursuant to the recommendations and proposed corrective action plans of this audit on or before February 1, 1999 all UEE program funds will be deposited to state accounts, hence the possibility of recording revenue in one fund and expenditures in another will be eliminated. The accounting for dishonored checks will be corrected immediately.

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## **APPENDIX A: PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
Milton A. Gordon	President
Juana Aikins	Accountant, Budget and Accounting, UEE
Martin Carbone	Insurance and Facility Use Officer
Pearl Cheng	Director of Finance and Administration, CSUF Foundation
Dolores Daoud	Supervisor, Purchasing
William Dickerson	Executive Director, CSUF Foundation
Gary Gardner	Financial Manager
Elizabeth Grace	Acting Procurement Officer
Melody Johnston	Director of Public Relations/Marketing, UEE
Norma Morris	Staff Assistant
Sherri Newcomb	Chief Financial Officer
Harry Norman	Dean, UEE Services
Cheryl Perreria	Supervisor, Accounts Payable
Ruth Richardson	Consultant, UEE
Mary Kay Tetreault	Vice President, Academic Affairs