

CONTINUING EDUCATION
CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS

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ABBREVIATIONS

CE	Continuing Education
CERF	Continuing Education Revenue Fund
CSU	California State University
CSUDH	California State University, Dominguez Hills
EE	Extended Education
EO	Executive Order
SAM	State Administrative Manual
SUAM	State University Administrative Manual

INTRODUCTION

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 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 non-state auxiliary organizations such 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 contained 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, Dominguez Hills, the Division of Extended Education (EE) manages the Continuing Education program.

OPINION

We visited the California State University, Dominguez Hills campus from May 4, 1998, through June 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 their 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]

Extended Education (EE) utilized the CSU Dominguez Hills Foundation to maintain continuing education funds and provide fiscal services for various programs without proper written authority. Maintaining continuing education monies in the Continuing Education Revenue Fund (CERF) and ensuring that written agreements fully define the services authorized between EE and the CSUDH Foundation reduces the risk of inappropriate management of state funds.

ACADEMIC DEPARTMENTS [7]

Campus procedures did not include a formalized review process to determine which academic department sponsored activities, such as conferences and workshops, should be managed in cooperation with Extended Education (EE) and operated through the Continuing Education Revenue Fund (CERF). Establishing a formalized review process for academic activities helps to ensure that they are placed under appropriate management.

EXPENDITURES [8]

Funds from the CERF were inappropriately transferred to an account maintained by EE at the CSUDH Foundation in anticipation of purchases and service needs for the televised distance learning program. Making acquisitions through the campus purchasing office ensures compliance with state and CSU system purchasing procedures.

REVENUE DISTRIBUTION AND RETAINED EARNINGS

GENERAL FUND REIMBURSEMENT [9]

General fund reimbursements for support services provided by campus administrative and academic departments to Extended Education (EE) were not properly documented. Documenting general fund reimbursement procedures ensures that the general fund is fully compensated for support services provided to Continuing Education.

WINTER SESSION AND OTHER REVENUE SHARING [11]

Revenue sharing rates for winter session and other special session programs were not properly documented. Proper documentation of revenue sharing rates reduces the risk of inappropriate revenue allocations.

ENROLLMENT AND STUDENT RECORDS [12]

Information regarding the disabled students services office was not included on EE application and/or registration forms. Including information regarding the disabled students services office will ensure that disabled students receive material related to the required assistance.

FEE SETTING, COLLECTION AND RECONCILIATION [13]

Extended Education (EE) was not writing off long outstanding accounts receivable. Writing off long outstanding accounts receivable reduces the need to commit campus resources to maintain and track amounts due that have a very low probability of collection.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CONTINUING EDUCATION PROGRAMS AND ADMINISTRATION

FISCAL SERVICES

Extended Education (EE) utilized the CSU Dominguez Hills Foundation to maintain continuing education funds and provide fiscal services for various programs without proper written authority. We found that:

- ▶ As of May 18, 1998, Extended Education (EE) maintained eleven agency accounts at the foundation with balances totaling \$962,992. The foundation retains all interest earnings on these funds and assesses account maintenance fees and check service charges.

EE Funds on Deposit at the Foundation May 18, 1998

<u>Fund Name</u>	<u>Source of Funds</u>	<u>Purpose of Fund</u>	<u>Balance</u>
Amer. Language & Culture	Contracts	Chargebacks	\$ 24,306
EE Services	Non-Credit Course Fees	Miscellaneous	334,950
EE Telecourses	CERF Transfers/Contracts	Anticipated Expenses	243,341
1-12 USA	Contract	Inactive Account	20,756
EE Chaykin	Contract	Inactive Account	32,752
EE Travel	Fees for Travel Abroad	Inactive Account	16,495
Dist. Learning Proj. Scvs.	Unknown	Unknown	1,324
Omnilore	Contract	Fees	4,881
Special Session Project	Contract Credit Courses	Job Training/Retraining	254,618
Coastline College	Grant	Program Costs	13,601
GETYS	Grant	Inactive Account	15,968
		Total	<u>\$962,992</u>

- ▶ The CSUDH Foundation Account Holders' Handbook states that the foundation has only a custodial obligation over agency accounts and that foundation service performed on agency accounts is similar to a bank that offers a non-interest-bearing checking account.
- ▶ There was no written agreement between Extended Education and the CSUDH Foundation that fully defined 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).

The CSU Task Force Report on Continuing Education states that the campus should not use its auxiliary as a bank. Pursuant to Title 5 §42500, 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 written agreement.

The dean of Extended Education stated that most of the funds held in foundation agency accounts were generated prior to the CSU Task Force Report policy directive and, in her opinion, should not be transferred to the CERF. She further stated that the services of the foundation were required to facilitate acquisitions and the fiscal administration of some EE programs and that plans were underway to document required foundation services in a formal written agreement.

Maintaining continuing education funds in the foundation without a written agreement that clearly defines the services to be provided and the amount to be paid to the foundation increases the risk of inappropriate expenditures of state funds and loss of interest and other revenues that are based on foundation administrative overhead charges.

Recommendation 1

We recommend that the campus:

- a. transfer balances from the foundation agency accounts to the CERF; and
- b. establish a written agreement between Extended Education and the CSUDH Foundation if any foundation services are required in the future.

Campus Response

We concur. Agency accounts in the CSUDH Foundation will be transferred to the CERF during the current fiscal year. Written agreements between Extended Education and the CSUDH Foundation will be established for any foundation services required in the future.

ACADEMIC DEPARTMENTS

Campus procedures did not include a formalized review process to determine which academic department sponsored activities, such as conferences and workshops, should be managed in cooperation with Extended Education (EE) and operated through the Continuing Education Revenue Fund (CERF).

A review of academic department agency accounts maintained at the CSUDH Foundation revealed several instances where the accounts contained revenue from self-supporting conferences and workshops.

Education Code §89704 requires that revenues received from CSU extension programs, special session, and other self-supporting instructional programs be deposited in the CERF.

The December 1996 CSU Task Force Report on Continuing Education recommends that ownership of a given program be clearly defined. If it is a campus-owned program, funds must be deposited in the CERF. Additionally, any services required from an auxiliary should be properly documented in a contract.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control shall include an effective system of internal review.

The EE dean stated that it was beyond the realm of her responsibility to monitor extension related activities sponsored by or through academic departments.

Not establishing a formalized review process for academic department sponsored conferences and workshops increases the risk of activities being improperly managed.

Recommendation 2

We recommend that the campus:

- a. establish procedures to ensure that all academic department sponsored activities, such as conferences and workshops, are appropriately managed;
- b. analyze all academic department accounts maintained at the foundation and transfer balances generated from continuing education activities to the CERF; and
- c. deposit and retain all future revenue from self-supporting instructional programs directly into the CERF.

Campus Response

We will analyze the appropriateness of using the CERF and the CSU Special Projects Fund, as well as the authority that would be provided if AB 2812 is approved to establish trust accounts for the fiscal management of conferences and workshops, to implement the intent of this recommendation. This will be completed by the close of FY 1998/99.

EXPENDITURES

In anticipation of purchases and service needs for the televised distance learning, program funds from the Continuing Education Revenue Fund (CERF) were inappropriately transferred to an account maintained by extended education (EE) at the CSUDH Foundation.

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

SUAM §2410 states that the purchasing authority for the purchase, sale, or exchange of personal property granted to the Trustees has been delegated to the campus presidents. It further provides that the purchasing policies and procedures are applicable to all purchases, leases, and licenses of personal property administered by the campus purchasing office regardless of the source of funds.

The EE dean stated that the funds were transferred to the foundation to expedite the acquisition of equipment and services and to reduce downtime for televised distance learning programs. Although no purchases had been made, the funds were transferred from the CERF via a purchase order.

Transferring CERF funds to the foundation for purchasing transactions circumvents state and CSU system purchasing procedures and increases the risk of inappropriate expenditures.

Recommendation 3

We recommend that the campus:

- a. discontinue the practice of transferring CERF funds to the foundation in anticipation of purchase and service needs; and
- b. comply with established state and CSU system purchasing procedures.

Campus Response

We will adhere to this recommendation immediately.

REVENUE DISTRIBUTION AND RETAINED EARNINGS

GENERAL FUND REIMBURSEMENT

General fund reimbursements for support services provided by campus administrative and academic departments to Extended Education (EE) were not properly documented.

We noted that:

- ▶ General fund reimbursement for campus administrative support services is provided via an allocation of 5% of EE revenue, position support, and media equipment acquisition and maintenance. Total reimbursement meets CSU directive requirements. However, there was no written agreement between the campus and EE containing the basis and rationale for the valuation of services.
- ▶ General Fund reimbursement for summer session support services is provided via an allocation of 5% of summer session revenue to the general fund; allocations to the library and data center; and 3% of summer session revenue plus 30% of revenue for courses with enrollment exceeding 25

students to the academic schools. Total reimbursement meets CSU directive requirements. However, there was no written agreement between the campus and EE containing the basis and rationale for the valuation of services.

- ▶ EE allocates 50% of net concurrent enrollment revenue to the academic schools. However, there was no documentation to support the allocation method being used.

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 revenues should be reimbursed to the general fund for support services. Support services include 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 include all personal services, operating expenses, and equipment included in academic support, student services, institutional support, and all personal services for administration at the department and school level.

Executive Order No. 298, *Regulations Governing Extension Student Enrollment in Regular Session Offerings*, states that the allocation of concurrent enrollment revenue shall be determined by the campus president following consultation with appropriate faculty representatives.

CSU memo BA 83-30, *Policy on Chargeable Services to Self-Supporting Operations*, dated December 28, 1983, 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. 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 EE dean stated that revenue distributions to the campus and academic departments were based on historical allocation rates that preceded her tenure.

Not documenting general fund reimbursement procedures could result in the general fund not being fully compensated for support provided to Continuing Education. It could also reduce working capital available to the campus.

Recommendation 4

We recommend that the campus:

- a. monitor the appropriateness of charges for the amount of services provided to EE 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

The campus already has existing policy governing reimbursement from the CERF to the General Fund which is in conformity with the relevant CSU policy. We will reformat this directive as an agreement and maintain it on file in the campus business office. This will be completed by the close of FY 1998/99.

WINTER SESSION AND OTHER REVENUE SHARING

Revenue sharing rates for winter session and other special session programs were not properly documented.

EE allocates 3% of winter session revenue plus 30% of revenue for courses with enrollment exceeding 25 students and negotiated percentages of revenue for fall and spring special sessions to the academic schools.

CSU policy does not address reimbursements to academic schools for costs incurred in support of winter and other special session programs.

CSU memo BA 83-30, *Policy on Chargeable Services to Self-Supporting Operations*, dated December 28, 1983, 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 EE dean stated that revenue distributions to the campus and academic departments were based on historical allocation rates that preceded her tenure.

Not documenting winter session and other special session revenue sharing procedures could result in academic schools not being fully compensated for costs incurred in support of such programs.

Recommendation 5

We recommend that the campus:

- a. establish formalized procedures for determining winter session and other special session revenue sharing rates;
- b. prepare appropriate written agreements containing the basis and rationale for the valuation; and
- c. maintain the written agreements on file in the campus business office.

Campus Response

These issues will be reviewed during the current academic year and will be completed by the close of FY 1998/99.

ENROLLMENT AND STUDENT RECORDS

Information regarding the disabled students services office was not included on the extended education (EE) application and/or registration forms or in extension program catalogs.

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 applications and registration forms should contain contact information for the disabled student services office.

The EE dean stated that space limitations on the registration form would not permit the inclusion of the required disclosure.

Failure to provide contact information regarding the disabled student services office increases the risk that disabled students are not being provided appropriate assistance.

Recommendation 6

We recommend that the campus ensure that information regarding the disabled students services office is included on EE application and registration forms.

Campus Response

This recommendation has been addressed. Information about disabled student services is provided in official campus Extended Education bulletins for all extension and special session programs. (See attached Fall Extension brochure)

FEE SETTING, COLLECTION AND RECONCILIATION

Extended Education (EE) was not writing off long outstanding accounts receivable.

At the time of our review (April 1998) EE receivables outstanding more than 90 days totaled \$79,166, and receivables outstanding for over two years totaled \$151,792.

SAM §8776.6 states that accounts declared uncollectible or with a low probability of collection should be written-off after all reasonable collection procedures do not result in payment. When all collection attempts fail, the campus can obtain relief from accountability from the State Board of Control for uncollectible amounts in excess of \$1,000.

Executive Order No. 616, *Discharge of Accountability*, dated April 19, 1994, delegates to campuses the authority to write off debts of \$1,000 or less which are either uncollectible or the amount(s) involved do not justify the cost of collection.

The EE dean stated that payments are periodically received on delinquent accounts, and she is reluctant to write-off all old accounts. Additionally, the CSUDH assistant manager of accounting services stated that an allowance for uncollectible accounts totaling \$248,000 has been established in the general ledger.

Long outstanding accounts receivable have a very low probability of collection and require a commitment of campus resources to maintain and track, which may exceed the amount collected.

Recommendation 7

We recommend that the campus:

- a. review and consider writing off its outstanding EE accounts of \$1,000 or less; and

- b. seek relief from accountability from the State Board of Control for accounts over \$1,000 or more than two years old.

Campus Response

These recommendations have been addressed. The Division of Extended Education and the campus business office have agreed on a write-off schedule that meets the intent of this resolution. A copy of that schedule is enclosed.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Robert C. Detweiler	President
Warren Ashley	Director, Distance Learning Extended Education
Christina Baltazar	Accounting Technician
Brenda Blow	Fiscal Officer
Brian Dahm	Assistant Manager, Accounting Services
Kent Gibson	Foundation Director
Carol Glaser	Coordinator, Academic Affairs Student Information System
Marge Gordon	Dean, Division of Extended Education
Scott Hornbeak	Director, Orthotics & Prosthetics
Tia Jerger-Kuhl	Director, Extension Programs
Gary Levine	Assoc. Dean of Extended Education
Sam Maynard	Foundation Human Resources Director
Edward Milecki	Director, American Language and Culture Program
Timothy Mozia	Supervisor, Extended Education Registration
Angie Perez	Supervisor, Cashiering
Kathleen Ramirez	Manager, Payroll & Cashier Services
Alonzo Rodriguez	Assoc. Vice President for Student Affairs
Ira Schoenwald	Associate Vice President Faculty Affairs
Teresa Stevens	Asst. to the Dean of Extended Education
Peggy Wallace	Chair, Dept. of Graduate Nursing Science
Robert Zahary	Associate Vice President, Academic Planning