

CONTINUING EDUCATION
SAN JOSE STATE UNIVERSITY

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CONTENTS

INTRODUCTION

Purpose.....	1
Scope and Methodology.....	2
Background	3
Opinion.....	3
Executive Summary.....	4

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Continuing Education Programs and Administration.....	8
Fiscal Services	8
Academic Departments.....	10
Program Ownership.....	11
Policies and Procedures	12
Operating Agreement and Lease	13
FCC Licenses	14
Revenue Distribution and Retained Earnings	15
General Fund Reimbursements.....	15
Revenue Sharing.....	16
Major Project and Program Development Accounts.....	18
Fee Setting, Collection and Reconciliation.....	19
Cash Receipts	19
Fee Reconciliation	20
Accounts Receivable.....	20
Tuition Fee Refund.....	22
Fee Approval.....	23
Faculty/Instructor Selection and Salaries	24
Additional Faculty Employment.....	24
Consultant Contracts	25

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Campus Response
APPENDIX C:	Chancellor's Acceptance

ABBREVIATIONS

CBA	Collective Bargaining Agreement
CE	Continuing Education
CERF	Continuing Education Revenue Fund
CEU	Continuing Education Unit
CSU	California State University
DRC	Disability Resource Center
EE	Extended Education
FCC	Federal Communications Commission
ITFS	Instructional Television Fixed Service
MOU	Memorandum of Understanding
SAL	Studies in American Language
SAM	State Administrative Manual
SJSU	San Jose State University
SUAM	State University Administrative Manual
TEN	Technology Education Network
UCE	University Continuing Education

INTRODUCTION

PURPOSE

Our overall audit objective was to ascertain the effectiveness of policies and procedures related to the administration of Continuing Education programs, determine the adequacy of controls over Continuing Education Revenue Fund (CERF) operations, and verify whether continuing education trust accounts have been properly established.

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;
- ▶ fund integrity is maintained between continuing education, state, and auxiliary funds;
- ▶ 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
- ▶ 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, were 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 “Notwithstanding any other provision of law to the contrary, revenues from extension programs, special sessions, and other self-supporting instructional programs, including but not limited to, fees and charges required by the trustees, may be transmitted to the Treasurer and, if transmitted, shall be deposited by that officer in the State Treasury to the credit of the State University Continuing Education Revenue Fund.” Prior to January 1, 1999, the revenues were required to be transmitted to the Treasurer.

In late 1998, the 1998 Higher Education Omnibus Act (AB 2812) was enacted. AB 2812 permitted continuing education revenues to be deposited in trust accounts instead of the CERF. The legislation amended Education Code § 89704 as mentioned above and Education Code § 89721 as follows:

The California Education Code § 89721 states in part that, effective January 1, 1999, “Notwithstanding any other provision of law to the contrary, revenues received for extension programs, special sessions, and other self-supporting instructional programs shall be deposited into and maintained in local trust accounts or in trust accounts in accordance with Sections 16305 to 16305.7, inclusive, of the Government Code, or in the California State University Trust Fund.”

June 1998 to date was the primary period of review.

Our focus involved a wide variety of issues dealing with continuing education 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;
- ▶ 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, discussed the report at the Executive Council meeting on February 11, 1997, and indicated that the campuses would be expected to abide by the recommendations contained therein.

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 San Jose State University, the University Continuing Education (UCE) Office manages the Continuing Education program.

OPINION

We visited the San Jose State University campus from June 28, 1999 through August 6, 1999, 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 [8]

FISCAL SERVICES [8]

University Continuing Education (UCE) utilized the San Jose State University (SJSU) Foundation to maintain continuing education funds and provide fiscal services without proper written authority. Maintaining continuing education funds in the continuing education revenue fund (CERF) or state trust accounts decreases the risk of inappropriate management of state funds and loss of interest and other revenues that are based on foundation charges.

ACADEMIC DEPARTMENTS [10]

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 University Continuing Education (UCE) and operated through the continuing education revenue fund (CERF) or state trust. Establishing a formalized review process for academic department sponsored activities ensures that they are placed under appropriate management.

PROGRAM OWNERSHIP [11]

Program sponsorship was not clearly identified for the Studies in American Language (SAL) program. Accurately identifying program sponsorship prevents misunderstandings concerning program responsibility.

POLICIES AND PROCEDURES [12]

University Continuing Education (UCE) had not fully developed a fiscal operations policy and procedures manual to communicate control requirements to all UCE personnel. Internal controls are strengthened when policies and procedures are documented and communicated to employees.

OPERATING AGREEMENT AND LEASE [13]

The operating lease and agreement between the campus and the San Jose State University (SJSU) Foundation was not current. When current written agreements are maintained, there is a decreased risk of misunderstandings and inconsistencies in the application of contract provisions.

FCC LICENSES [14]

Funds generated from the lease of campus owned excess Instructional Television Fixed Service (ITFS) channel capacity were not deposited into state accounts. Depositing revenues received from the leasing of excess ITFS channel capacity into state accounts helps to ensure that those state funds are appropriately managed.

REVENUE DISTRIBUTION AND RETAINED EARNINGS [15]

GENERAL FUND REIMBURSEMENT [15]

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

REVENUE SHARING [16]

Revenue sharing allocations for special session programs were not properly documented. Proper documentation of revenue sharing allocations ensures that academic departments are fully compensated for costs incurred in support of special session programs and decreases the risk of misunderstandings concerning revenue allocations.

MAJOR PROJECT AND PROGRAM DEVELOPMENT ACCOUNTS [18]

The campus did not have formalized procedures for review and approval of University Continuing Education (UCE) major project and program development accounts. Establishing adequate controls over major project and program development accounts decreases the risk of inappropriate expenditures.

FEE SETTING, COLLECTION AND RECONCILIATION [19]

CASH RECEIPTS [19]

Internal controls over cash receipts at the University Continuing Education (UCE) professional development facility were not adequate. Adequately controlling cash receipts reduces exposure to loss from inappropriate acts.

FEE RECONCILIATION [20]

University Continuing Education (UCE) was not reconciling tuition fees received for both credit and non-credit extension courses to revenue recorded in the continuing education revenue fund (CERF) or state trust. Maintaining adequate controls over revenue reconciliation helps to ensure that errors or misappropriations are detected and that all continuing education revenues are recorded in University Continuing Education (UCE) revenue accounts.

ACCOUNTS RECEIVABLE [20]

Internal controls over accounts receivable for non-credit professional development courses were inadequate. Maintaining controls over accounts receivable increases working capital and decreases the risk of lost revenues.

TUITION FEE REFUND [22]

Policies and procedures for the refund of continuing education tuition fees were inadequate. Establishing a refund policy in compliance with Title 5 requirements with adequate internal controls decreases the risk of improper refunds.

FEE APPROVAL [23]

Tuition fees for University Continuing Education (UCE) credit and non-credit extension courses were not submitted to the campus fee advisory committee and properly approved. Internal controls are strengthened when fee actions are properly reviewed and approved.

FACULTY/INSTRUCTOR SELECTION AND SALARIES [24]

ADDITIONAL FACULTY WORKLOAD [24]

Campus procedures for monitoring compliance with the CSU additional employment policy did not include University Continuing Education (UCE) faculty appointments. Proper monitoring of faculty workload ensures compliance with the CSU additional employment policy.

CONSULTANT CONTRACTS [25]

Contracts were not prepared for most consultants hired by University Continuing Education (UCE). Internal controls over consultant fees are strengthened when appropriate written documentation is prepared to support instructor payments.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CONTINUING EDUCATION PROGRAMS AND ADMINISTRATION

FISCAL SERVICES

University Continuing Education (UCE) utilized the San Jose State University (SJSU) Foundation to maintain continuing education funds and provide fiscal services without proper written authority. We noted the following:

- ▶ UCE previously used the foundation to provide fiscal services for various non-credit professional development programs. A Memorandum of Understanding (MOU) was executed between UCE and the foundation for fiscal year 1997/98; however, program sponsorship was never clearly defined. Although the programs were transferred to the continuing education revenue fund (CERF) effective July 1, 1998, corresponding retained earnings continue to be maintained in the foundation and are used by the foundation for cash flow purposes in connection with a reimbursement arrangement with UCE (see below). As of June 30, 1999, the account balance totaled \$1,304,541.
- ▶ The foundation pays certain expenditures on behalf of UCE, which are invoiced and reimbursed from the CERF on a monthly basis. An account is maintained at the foundation to track the amount owed by UCE, which as of June 30, 1999, totaled \$424,721.
- ▶ Revenue from administrative and management services provided by UCE were deposited into an account at the foundation to be used by the UCE dean for business development activity. As of June 30, 1999, the account balance totaled \$58,474.
- ▶ A program development account had been established in the foundation for fiscal 1998/99 for the deposit of UCE non-credit course tuition fees. Deposits/transfers for fiscal 1998/99 totaled \$37,375, and the account balance totaled \$18,658, as of June 30, 1999.
- ▶ The foundation pays interest on only those accounts with balances of \$500,000 or more at an interest rate of 5 percent or the average money market rate, whichever is less. The foundation administrative fee is 5 percent of expenses with a maximum fee of \$250 per transaction, and no administrative fee is assessed on fund deposits.
- ▶ There was no written agreement that defined the services to be provided and corresponding fees.

Education Code §89704 states that, notwithstanding any other provision of law to the contrary, revenues from CSU extension programs, special sessions, and other self-supporting instructional programs may be deposited in the CERF. Prior to January 1, 1999, such revenues were required to be deposited in the CERF.

Education Code §89721 states that, effective January 1, 1999, notwithstanding any other provision of law to the contrary, fees for extension programs, special sessions, and other self-supporting instructional programs shall be deposited into and maintained in local trust accounts or in trust accounts in accordance with Sections 16305 to 16305.7 of the Government Code, or in the California State University Trust Fund.

Pursuant to Title 5, §42500 and §42501, 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 UCE dean stated that the above noted items reflect the current state of the movement of programs from the foundation to the CERF or state trust account. He also stated that UCE first chose to establish a MOU with the foundation to establish the relationship, but on further reflection decided to transfer programs from the foundation to the CERF. He further stated that the current funds in the foundation come from varied sources including programs now in the CERF, but also other non-degree, non-credit activities that UCE manages on behalf of the foundation.

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

Recommendation 1

We recommend that the campus:

- a. transfer balances from the UCE foundation accounts to the CERF or into state trust accounts; and
- b. establish a written agreement between UCE and the SJSU Foundation that fully defines services, reimbursement procedures, and related fees, should any future foundation services be required.

Campus Response

- a. SJSU has complied with this recommendation and has transferred funds from the UCE Foundation account to the CERF Trust account. Copies of ledger entries have been sent to the auditors.
- b. UCE agrees with this recommendation and a written agreement was signed on December 21, 1999 by the Dean of Continuing Education and the COO of the SJSU Foundation that establishes the UCE and SJSU Foundation relationship. A copy of this agreement has been provided to the auditors.

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 University Continuing Education (UCE) and operated through the continuing education revenue fund (CERF) or state trust account.

A review of academic department accounts maintained at the San Jose State University (SJSU) Foundation disclosed instances where accounts contained revenue from self-supporting programs and workshops.

Education Code §89704 states that, notwithstanding any other provision of law to the contrary, revenues from CSU extension programs, special sessions, and other self-supporting instructional programs may be deposited in the CERF. Prior to January 1, 1999, such revenues were required to be deposited in the CERF.

Education Code §89721 states that, effective January 1, 1999, notwithstanding any other provision of law to the contrary, fees for extension programs, special sessions, and other self-supporting instructional programs shall be deposited into and maintained in local trust accounts or in trust accounts in accordance with Sections 16305 to 16305.7 of the Government Code, or in the California State University Trust Fund.

Pursuant to Title 5 §42500 and 42501, an auxiliary may administer workshops, conferences, institutes and instructionally related programs. However, any services provided by an auxiliary should be properly documented in a contract.

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

The UCE director of finance stated that she was unaware of any academic-related programs remaining in the foundation. She further stated that all programs that were in the foundation and identified as belonging to continuing education were transferred to the CERF in fiscal 1996/97.

Lack of a formalized review process for academic department sponsored conferences, workshops, and other self-supporting instructional programs increases the risk of improperly managed activities.

Recommendation 2

We recommend that the campus:

- a. establish procedures to ensure that all campus sponsored self-supporting instructional programs, including conferences and workshops, are managed in accordance with CSU directives and the Education Code;

- b. analyze all academic department accounts maintained at the foundation and transfer balances from campus sponsored self-supporting instructional activities to the CERF or into state trust accounts; and
- c. deposit and retain all future revenue from campus sponsored self-supporting instructional activities directly into the CERF or into state trust accounts.

Campus Response

- a. Pursuant to this recommendation, the Dean of UCE and the COO of the SJSU Foundation signed a written agreement on December 2, 1999 that provides for a joint review of proposals involving self-support instructional programs to be sure the program management is in compliance with Education codes and CSU directives. A copy of the agreement has been provided to the auditors.
- b. UCE agrees with this recommendation and has begun the process of reviewing all campus programs in the SJSU Foundation to determine if any self-supporting activities are currently residing in the Foundation. If any are found, the balances will be transferred to CERF Trust accounts. This will be completed by July 31, 2000.
- c. We agree with this recommendation and will ensure that all future proposals are reviewed and managed appropriately.

PROGRAM OWNERSHIP

Program sponsorship was not clearly identified for the Studies in American Language (SAL) program. We noted that:

- ▶ University Continuing Education (UCE) manages and administers the SAL program on behalf of the foundation; however, a written agreement had not been executed between UCE and the foundation to define the services to be provided and corresponding payments.
- ▶ As of June 30, 1999, SAL funds totaling \$283,000 were maintained in a UCE foundation account.
- ▶ The UCE website, letterhead, catalogs and program brochures identify SAL as a UCE program.

The CSU Task Force Report on Continuing Education recommends that sponsorship of a given program be clearly defined.

Pursuant to Title 5 §42500 and 42501, an auxiliary may administer workshops, conferences, institutes and instructionally related programs. However, any services provided by an auxiliary should be properly documented in a contract.

The UCE associate dean stated that the SAL program was initiated as a contract with the foundation by a Japanese newspaper to provide non-credit language workshops for students they were recruiting. He further stated that UCE has managed the program for the foundation from the outset and that a Memorandum of Understanding (MOU) was developed subsequent to the CSU Audit Task Force report but has not been executed.

Not clearly defining program sponsorship increases the risk of misunderstandings concerning program responsibility.

Recommendation 3

We recommend that the campus:

- a. establish a written agreement that fully defines services, reimbursement procedures, and related fees with respect to UCE management of the SAL program on behalf of the foundation;
- b. identify the SAL program as sponsored by the foundation in cooperation with UCE on all future UCE brochures, catalogs, and other advertising material; and
- c. transfer SAL funds maintained in UCE accounts back to the appropriate SAL foundation account.

Campus Response

- a. UCE has complied with this recommendation by signing an MOU with the SJSU Foundation on November 23, 1999 defining the management of the SAL program. A copy has been provided to the auditors.
- b. The SAL program brochure identifying SAL as an SJSU Foundation program has been printed starting with the Spring 2000 term. All future advertising material will carry the statement "An SJSU Foundation Program". A copy of the latest brochure has been provided to the auditors.
- c. SAL funds that were co-mingled with other UCE funds in the Foundation have been transferred to the appropriate SAL Foundation account. A copy of the ledger has been provided to the auditors.

POLICIES AND PROCEDURES

University Continuing Education (UCE) had not fully developed a fiscal operations policy and procedures manual to communicate control requirements to all UCE personnel.

SAM §20003 states that the nonexistence of policy and procedural or operational manuals is a danger signal of a vulnerable control system.

The UCE director of finance acknowledged that a policy and procedures manual was needed. She further stated that a manual would be produced as part of the reorganization of the UCE finance unit.

Internal controls can be compromised if they are not properly documented and communicated to campus employees.

Recommendation 4

We recommend that UCE complete and distribute written fiscal operations policies and procedures to all UCE personnel.

Campus Response

UCE agrees with this recommendation to provide written policies and procedures and expects to have them completed by July 31, 2000.

OPERATING AGREEMENT AND LEASE

The operating agreement and lease between the campus and the San Jose State University (SJSU) Foundation was not current.

The agreement expired on June 30, 1998, and has been 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 foundation chief operating officer stated that she would like to make some revisions before executing a new agreement.

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 5

We recommend that the campus promptly revise and renew the operating agreement and lease between the campus and the SJSU Foundation.

Campus Response

UCE agrees with this recommendation and will have completed a new operating agreement and lease by February 28, 2000.

FCC LICENSES

Funds generated from the lease of campus owned excess Instructional Television Fixed Service (ITFS) channel capacity were not deposited into state accounts.

The campus leases excess transmission capacity from ITFS channels licensed to San Jose State University (SJSU) by the Federal Communication Commission (FCC). However, lease payments payable to the campus are deposited directly into a foundation account for the Technology Education Network (TEN). As of June 30, 1999, the account balance, which also contains funds from other sources, totaled \$101,315. The foundation, which manages the investment of these funds, only pays interest on accounts with balances of \$500,000 or more.

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 §16305.2 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.

The TEN director stated that the lease payments have always been deposited to the foundation. She further stated that plans are underway to move the funds into a trust account.

Depositing revenue from the leasing of excess channel capacity directly to the 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 6

We recommend that the campus:

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

Campus Response

- a. Pursuant to this recommendation, a state Trust account has been established to collect future ITFS channel lease payments and a lease payment received this year has been deposited to the account. Copies of the Account Agreement, lease payment check and ledger have been provided to the auditors.
- b. Funds identified as channel lease payments have been transferred from the SJSU Foundation to the new state Trust account. Copies of the transfer requisition and ledger have been provided to the auditors.

REVENUE DISTRIBUTION AND RETAINED EARNINGS

GENERAL FUND REIMBURSEMENTS

General fund reimbursements for support services provided by campus administrative and academic departments to University Continuing Education (UCE) were not properly supported.

General fund reimbursement for campus administrative and other support services is based on transactional analysis of the services provided. In addition, all net revenue generated from open university is allocated to the corresponding academic college or department based on their respective percentage of total revenue. Although total reimbursements meet and exceed CSU directive requirements, no written agreements exist between the service providers and UCE containing the basis and rationale for the valuation of services.

CSU directive 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.

Executive Order No. 298, *Regulations Governing Extension Student Enrollment in Regular Session Offerings*, dated August 1, 1978, states that the allocation of concurrent enrollment revenue shall be determined by the campus president following consultation with appropriate faculty representatives.

CSU directive 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, and institutional support, and all personnel services for administration at the department and school level.

CSU directive 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 UCE director of finance stated that general fund reimbursements are negotiated with the campus service providers and approved by the provost and the council of deans. She further stated, however, that these agreements have not been formalized in writing.

A lack of documentation for reimbursement procedures could result in the general fund not being fully compensated for support provided to UCE in addition to reducing working capital available to the campus.

Recommendation 7

We recommend that the campus:

- a. prepare appropriate written agreements containing the basis and rationale for the valuation of services; and
- b. maintain the written agreements on file in the campus business office.

Campus Response

- a. In compliance with this recommendation, MOUs have been signed with the SJSU vice president for administration, the chief information officer, the director of disabled student resources, the director of the library, and the vice president for student affairs defining the general fund support provided to UCE and the basis of the reimbursement for those services. Copies of these MOUs have been provided to the auditors.
- b. We agree with this recommendation and will ensure that these written agreements are on file in the campus business office.

REVENUE SHARING

Revenue sharing allocations for special session programs were not properly documented.

University Continuing Education (UCE) shares all net revenue from special session programs with corresponding academic colleges or departments based on the percentage of total revenue generated by each academic department. However, there were no formalized written agreements between the academic departments/colleges and UCE containing the basis and rationale for the allocations.

With the exception of summer session programs, CSU policy does not address revenue sharing to academic departments for costs incurred in support of other special session programs.

CSU directive 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 a 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 UCE director of finance stated that the provost and the council of deans approve the revenue sharing allocation process; however, no written agreements have been executed to formalize the arrangements.

Not documenting academic school revenue sharing allocations could result in misunderstandings between the academic departments and UCE, in addition to academic departments not being fully compensated for costs incurred in support of UCE special session programs.

Recommendation 8

We recommend that the campus:

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

Campus Response

- a. Formalized procedures for determining special session revenue sharing have been defined in an MOU signed by the Provost/Vice President for Administration and the Dean of Continuing Education that contains the basis and rationale for the revenue sharing agreement. This document was signed on August 27, 1999 and a copy has been provided to the auditors.

- b. The written agreement is noted in “a” above.
- c. We agree with this recommendation and will ensure that these written agreements are on file in the campus business office.

MAJOR PROJECT AND PROGRAM DEVELOPMENT ACCOUNTS

The campus did not have formalized procedures for review and approval of University Continuing Education (UCE) major project and program development accounts.

Executive Order No. 648, *Delegation of Fiscal Authority and Responsibility*, dated January 1, 1996, delegated authority to the campus president to approve the expenditure from and transfer between appropriations, funds, programs, allotments, and projects except where otherwise prohibited.

CSU directive, C 91-13, *Accounting for the CERF*, dated July 31, 1991, states that program development projects will be created and approved on the campus.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control shall include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenue, and expenditures.

The UCE director of finance stated that the use of retained earnings is discussed and reviewed by the UCE administrative council in consultation with the UCE dean; however, the decision making process has not been documented.

Not maintaining adequate controls over major project and program development accounts increases the risk of inappropriate expenditures.

Recommendation 9

We recommend that the campus establish formalized procedures to review and approve major project and program development accounts

Campus Response

UCE agrees with this recommendation and has prepared a “Major Project and Program Development Authorization” procedure and form to be completed by UCE and approved by the Provost/Vice President for Administration prior to the implementation of any major project. A copy of the procedure and form has been provided to the auditors.

FEE SETTING, COLLECTION AND RECONCILIATION

CASH RECEIPTS

Internal controls over cash receipts at the University Continuing Education (UCE) professional development facility were not adequate. We noted that:

- ▶ Adequate separation of duties was not maintained between the registration and cash receipting functions.
- ▶ Daily deposits were not verified by the supervisor of the person preparing the deposit.
- ▶ No reconciliation was prepared for facility rental payments received by UCE.

SAM §20003 requires the campus to develop internal controls that limit access to state agency assets to authorized personnel who require these assets in the performance of their assigned duties.

SAM §8032.1 states that except where the supervisor and the person depositing cash are not at the same location, the person supervising the person depositing cash will verify that receipts have been deposited intact and in accordance with SAM Section 8032.1. The supervisor will distribute the copies of the Report of Deposit in accordance with SAM Section 8033.2, Item 16, but will perform no other function in connection with the deposit.

SUAM §3821 states that the chief business officer shall establish control procedures to ensure that all monies due are collected and are safeguarded, deposited, reconciled, remitted, and invested in a timely manner.

The UCE director of finance stated that due to the size of the customer service staff, it has not always been feasible to separate registration and cashiering functions. She further stated that procedures have not yet been established for payment reconciliation.

Inadequate controls over cash receipts increases the risk of loss from inappropriate acts.

Recommendation 10

We recommend that the campus strengthen internal controls over cashiering operations at the UCE professional development facility.

Campus Response

UCE agrees with the recommendation and is in the process of defining position responsibilities and supervision in order to provide better cashiering controls. We will have this completed by July 31, 2000.

FEE RECONCILIATION

University Continuing Education (UCE) was not reconciling tuition fees received for both credit and non-credit extension courses to revenue recorded in the continuing education revenue fund (CERF) or state trust accounts.

SUAM §3821 states that the chief business officer shall establish control procedures to ensure that all monies due are collected and are safeguarded, deposited, reconciled, remitted, and invested in a timely manner.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control shall include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenue, and expenditures.

The campus director of accounting stated that a reconciliation of UCE tuition fees has not been performed, and this has never been an issue during any previous audit.

Not reconciling revenues received to those recorded in the CERF or state trust accounts increases the risk of errors and misappropriations.

Recommendation 11

We recommend that the campus develop procedures to reconcile revenues received for both credit and non-credit courses to the revenues recorded in the CERF or state trust accounts.

Campus Response

We concur. SJSU Accounting office and UCE are working together to develop procedures to reconcile revenue for both credit and non-credit courses. Procedures will be in place by July 31, 2000.

ACCOUNTS RECEIVABLE

Internal controls over accounts receivable for non-credit professional development courses were inadequate. We noted that:

- ▶ University Continuing Education (UCE) had not established procedures for the collection of delinquent accounts.
- ▶ UCE did not maintain an accurate accounts receivable aging report. Our review showed several accounts were not actual receivables but adjustments needed to clear balances from the aging report that had not been performed in a timely manner.

- ▶ The registration system used by UCE allowed “holds” to be placed on delinquent accounts; however, this feature was not routinely used by UCE.
- ▶ UCE was unaware that the campus recorded dishonored checks as a receivable to the continuing education revenue fund (CERF) or state trust account. Consequently, the receivable account had not been adjusted for collections or adjustments made by UCE.
- ▶ UCE did not have procedures in place to transfer professional development accounts receivable to the campus accounting office to take advantage of the available options used to resolve delinquent receivables. Such options include local write-offs, relief from accountability, tax-offset program, and collection agencies.

SAM §8776.6 indicates that if all reasonable collection efforts do not result in payment, the campus may request relief from accountability of uncollectible amounts from the State Board of Control.

Executive Order No 616, *Discharge of Accountability*, dated April 19, 1994, delegates to the 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.

SAM §8776.6 and SUAM §3822 establish procedures for the collection of outstanding accounts receivable, including the use of tax offset.

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

The UCE director of finance stated that UCE has not developed consistent or adequate processes to accurately perform collection of delinquent accounts. She further stated such processes would be established as the UCE finance unit is reorganized.

Inadequate controls over accounts receivable decrease working capital and increase the risk of loss of revenue.

Recommendation 12

We recommend that the campus:

- a. establish procedures to ensure timely review, follow-up, and collection of delinquent UCE professional development accounts;
- b. review the UCE accounts receivable aging report and take appropriate action to purge accounts identified as not being actual receivables;

- c. develop a process for recording UCE collections or adjustments to the CERF dishonored check receivable account; and
- d. develop procedures to transfer UCE accounts receivable to the campus accounting office in order to take advantage of all available collection options.

Campus Response

UCE agrees with this recommendation and has begun the process of installing a new cashiering program that will provide better data for account collections. We are working with the University Cashiering office to establish a process for recognizing dishonored checks in a timely manner and have begun discussions on collection options. We expect to have this process completed by July 31, 2000.

TUITION FEE REFUND

Policies and procedures for the refund of continuing education tuition fees were inadequate. We noted that:

- ▶ UCE was unable to generate a report showing the total amount of outstanding tuition credits owed by UCE.
- ▶ UCE does not verify that check refunds processed for professional development are recorded to the continuing education revenue fund (CERF) or state trust account.
- ▶ Credit card reversals performed by an accounting technician were not verified by a supervisor.

Title 5 §41802 provides specific refund formulas for special sessions and extension course tuition fees and requires refund requests be in writing.

CSU directive BA 89-10, *Extension Fee Refund Policy; Amendment to Title 5 of the California Code of Regulations*, dated April 7, 1989, states that the campus is authorized to withhold an amount equal to \$0 to \$20 per course from a fee refund when a student withdraws from an extension course and applies for the refund prior to the day of the first class session.

SAM §20003 states that the elements of a satisfactory system of internal accounting and administrative control shall include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenue, and expenditures.

The UCE director of finance stated that the professional development program was developed as a non-credit program and was not considered, nor had it been reported, as an extension program; therefore, the extension refund policy was not applied. She further stated that UCE has not developed formalized refund processing procedures. The campus director of accounting indicated that differences between

the campus refund policy and Title 5 were due to adjustments required to integrate the two different processes.

Not maintaining a refund policy in compliance with Title 5 requirements and adequate internal controls increases the risk of improper refunds.

Recommendation 13

We recommend that the campus establish formalized procedures to ensure adequate control over UCE refund processing.

Campus Response

UCE agrees with this recommendation. A system will be set up so that all refunds will be processed through the University billing/receivable system. This will allow for tracking refunds by individual student. We expect to have this system working by July 31, 2000.

FEE APPROVAL

Tuition fees for University Continuing Education (UCE) credit and non-credit extension courses were not submitted to the campus fee advisory committee and properly approved.

Executive Order No. 661, *Fees, Rates, and Charges*, dated August 23, 1996, requires each campus to establish a fee advisory committee to provide advice to the campus president regarding proposed fee actions and delegates to the campus president the authority to approve adjustments in campus user fees.

The UCE associate dean stated that tuition fees for credit programs were set by the council of deans; however, the approval process had not been formalized as a submission to the campus fee committee. He further stated that non-credit fees would be included with the establishment of the submission process.

Internal controls are compromised when fee actions are not properly reviewed and approved.

Recommendation 14

We recommend that the campus establish procedures to ensure that UCE fees are submitted to the fee advisory committee and properly approved.

Campus Response

UCE agrees with this recommendation and has completed a UCE Fee Policy statement and form for complying with EO 661 for fee setting for credit courses. For non-credit courses, the University

President has delegated fee setting to the Dean of Continuing Education. All documents have been provided to the auditors.

FACULTY/INSTRUCTOR SELECTION AND SALARIES

ADDITIONAL FACULTY EMPLOYMENT

Campus procedures for monitoring compliance with the CSU additional employment policy did not include University Continuing Education (UCE) faculty appointments.

CSU directive HR 97-07, *Revised Additional Employment Policy*, dated September 22, 1997, limits additional employment to 25% of a full-time position calculated as a percentage of full-time workload or full-time time base. When applying the limitations of the policy, the applicable time period for twelve (12) month employees is based on the calendar year. The applicable time period for ten-month or academic year employees is based on the academic year at semester/quarter campuses and the individual's academic year at QSYRO campuses, exclusive of time periods between academic years, time periods between academic terms, and vacation periods of the employee. The policy applies to the assignment of additional employment to CSU employees in any regular CSU program or auxiliary organization. Each campus is responsible for determining the extent of an employee's CSU workload prior to appointment to any position.

Article 36.1 of the Collective Bargaining Agreement between the CSU Board of Trustees and the California Faculty Association, for October 4, 1995 through June 30, 1998, states that additional employment shall refer to any employment compensated by CSU, funded by general or non-general funds including CSU auxiliaries, that is in addition to the primary or normal employment of a faculty unit employee. The total additional employment of a faculty unit employee shall not exceed a total of 25% overage.

The UCE associate dean stated that the campus has not identified UCE as the responsible administrative office to monitor faculty overload. He further stated that UCE does monitor the teaching load of faculty within its own programs. The associate dean of faculty affairs indicated that UCE faculty appointments were not part of the monitoring process.

Not adequately monitoring faculty workload increases the risk of non-compliance with the CSU additional employment policy.

Recommendation 15

We recommend that the campus develop procedures to include all additional employment when monitoring employee workload.

Campus Response

UCE agrees with this recommendation and has coordinated the development of an additional employment monitoring procedure. Documents have been provided to the auditors.

CONSULTANT CONTRACTS

Written contracts were not prepared for most consultants hired by University Continuing Education (UCE).

Our review disclosed that, with the exception of the seminar programs, UCE does not enter into written contracts with consultants hired for instructional purposes.

SAM §20003 states, in part, that there should be an established system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures.

The UCE associate dean stated that when UCE operated its non-credit professional development program in the foundation, there was a set of contract forms used for all independent contractors. He further stated that with the transition of operations to the continuing education revenue fund (CERF), the equivalent set of forms were not provided by the campus or developed by UCE.

Internal controls over consultant fees are compromised when appropriate written documentation is not prepared to support instructor payments.

Recommendation 16

We recommend that the campus establish procedures to ensure that written agreements are executed whenever consultants are hired for instructional purposes.

Campus Response

UCE agrees with this recommendation and has completed a "Contract for Non-Credit Instruction" form and procedures for use whenever consultants are hired for instructional purposes. Copies of the procedures and contract have been provided to the auditors.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Dr. Robert L. Caret	President
Edmund Almazan	Accounts Receivable Operations Analyst
Betty Benson	Director, Technology Education Network
Shawn Bibb	Director, Accounting and Systems and Technology Management
Paul Bradley	Associate Dean, University Continuing Education
Chris Carlson	Operations Manager, University Continuing Education
Kathy Colacicco	Faculty Personnel Analyst
Marilynne Garrison	Accounting Technician II
Kris Krause	Accounting Technician
Pat Lawson-North	Program Manager, University Continuing Education
Caesar Manalo	Accounting Technician
Louise Morangolo	Records Associate
Deana Morris	Collection Specialist
James Nims	Director, Corporate Programs, University Continuing Education
Mark Novak	Dean, University Continuing Education
Dora Ozawa	Director, Budget/Personnel, Admissions and Records
William Petchauer	Director of Business and Finance, SJSU Foundation
Kathy Rott	Institutional Planning and Academic Resources
Edward Serafica	Acting Cashiering Manager
Paul Siegel	Manager of Accounting and Costing
Jo Sprague	Associate Dean, Faculty Affairs
Georgia Viersen	Director of Finance, University Continuing Education
Darcel Wood	Records Associate
Mary Worth	Chief Operations Officer, SJSU Foundation