

**CONTINUING EDUCATION**  
**CALIFORNIA STATE UNIVERSITY,**  
**MONTEREY BAY**

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## **ABBREVIATIONS**

CE	Continuing Education
CERF	Continuing Education Revenue Fund
CEU	Continuing Education Unit
CLS	Center for Legal Studies
CSU	California State University
CSUMB	California State University, Monterey Bay
DLEE	Distributed Learning and Extended Education
EE	Extended Education
GAAP	Generally Accepted Accounting Principles
MOU	Memorandum of Understanding
OSDR	Office of Student Disability Resources
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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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, 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;

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## INTRODUCTION

- ▶ 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.

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## 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 California State University, Monterey Bay, the Distributed Learning and Extended Education (DLEE) Office manages the Continuing Education program.

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## OPINION

We visited the California State University, Monterey Bay campus from September 7, 1999, through October 8, 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.

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## **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.

### **REVENUE DISTRIBUTION AND RETAINED EARNINGS [6]**

#### **GENERAL FUND REIMBURSEMENT AND REVENUE SHARING [6]**

Distributed Learning and Extended Education (DLEE) had not fully reimbursed the campus for support services provided by administrative and academic departments or allocated any Open University revenue to the general fund and/or academic departments. Reimbursing the campus and academic departments compensates them for support services provided to continuing education and increases available working capital.

#### **CONTINGENCY RESERVE [8]**

The continuing education revenue fund (CERF) contingency reserve was not maintained in compliance with CSU policies. Adherence to such policies ensures proper management of CERF funds and reduces the risk of funds being transferred from the campus to the systemwide reserve.

### **EXPENDITURES [8]**

General fund support provided to Distributed Learning and Extended Education (DLEE) for the development of the campus distance education program was not defined by a Memorandum of Understanding (MOU), and fund integrity was not maintained between the continuing education revenue fund (CERF) and the general fund. Documenting the agreement between the campus and DLEE and following generally accepted accounting principles (GAAP) ensures proper expenditures, decreases misunderstandings, and provides greater fund integrity.

## **FEE SETTING, COLLECTION AND RECONCILIATION [10]**

Tuition fees for Distributed Learning and Extended Education (DLEE) non-credit extension courses were not properly approved. Internal controls over course fees are strengthened when changes in the fee structure are supported by appropriate written approval.

## **FACULTY/INSTRUCTOR SELECTION AND SALARIES [10]**

Campus procedures for monitoring compliance with the CSU additional employment policy were not adequate. Adequately monitoring faculty workload helps to ensure compliance with this policy.

## **ENROLLMENT AND STUDENT RECORDS [11]**

A non-discrimination statement was not included in certain Distributed Learning and Extended Education (DLEE) course schedules. Including the required statement in all bulletins ensures compliance with Federal regulations.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### REVENUE DISTRIBUTION AND RETAINED EARNINGS

#### GENERAL FUND REIMBURSEMENT AND REVENUE SHARING

Distributed Learning and Extended Education (DLEE) had not fully reimbursed the campus for support services provided by administrative and academic departments or allocated any Open University revenue to the general fund and/or academic departments. We noted that:

- ▶ Although 8% of revenue had been accrued to reimburse the general fund for campus administrative services, funds had not been transferred. The accrued reimbursement meets and exceeds CSU directive requirements; however, no written agreement exists between the campus and DLEE containing the basis and rationale for the valuation of services.
- ▶ The allocation of concurrent revenue had not been determined and formalized into a written agreement.

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.

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.

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 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 DLEE director stated that continuing education has not transferred funds to the campus or academic departments. He further stated that this is their first full year of operation, and DLEE is developing revenue sharing procedures based on a review of other CSU campus practices. The accounting manager stated that the transfer would have to be made by the budget area.

Not reimbursing the general fund for support services provided to DLEE and allocating concurrent enrollment revenue reduces the amount of working capital available to the campus and results in the general fund and academic departments not being compensated for support provided to continuing education.

### **Recommendation 1**

We recommend that the campus:

- a. reimburse the general fund and academic departments for support services provided and establish formalized procedures for future periodic reimbursements;
- b. establish formalized written procedures for determining general fund reimbursement and open university revenue sharing rates;
- c. prepare appropriate written agreements containing the basis and rationale for the valuation of services; and
- d. maintain the written agreements in the campus business office.

### **Campus Response**

We concur. In December 1999, CERF reimbursed the general fund for support services. A written procedure for general fund reimbursement was completed. Reimbursement to general fund will be completed quarterly.

The written procedure for determining open university revenue sharing rates will be completed by May 1.

A memorandum of understanding between the university and DLEE containing the basis and rationale for the valuation of services will be completed by May 1. The written agreements will be maintained in the accounting office.

## CONTINGENCY RESERVE

The continuing education revenue fund (CERF) contingency reserve was not maintained in compliance with CSU policy.

An analysis of the CERF contingency reserve as of June 30, 1998, showed that it exceeded CSU policy by \$59,194.

CSU directive BA 91-13, *Revised Policy on the Management of the Continuing Education Revenue Fund*, dated August 7, 1991, states that the contingency reserve balance is limited to one hundred and fifty thousand dollars (\$150,000) or fifteen percent (15%) of the prior year program revenue, whichever is greater. The amount of the contingency reserve exceeding this limit on March 15th of each year will be transferred to the systemwide reserve.

The director of accounting stated that prior to the appointment of the DLEE director in 1998, the campus did not closely monitor the CERF contingency reserve.

Not maintaining the campus CERF contingency reserve within CSU policy could result in excess funds being transferred from the campus to the systemwide continuing education reserve.

### Recommendation 2

We recommend that the campus develop procedures to monitor the CERF contingency reserve to ensure it is maintained within CSU policy.

### Campus Response

We concur. In January 2000, accounting completed the statement of retained earnings report. A copy of the report was submitted to the Director of Distance Learning and Extended Education. Accounting began completing monthly the retained earnings report to monitor CERF contingency reserves are maintained within CSU policy.

## EXPENDITURES

General fund support provided to Distributed Learning and Extended Education (DLEE) for the development of the campus distance education program was not defined by a Memorandum of Understanding (MOU), and fund integrity was not maintained between the continuing education revenue fund (CERF) and the general fund. We noted that:

- ▶ Fifty percent of DLEE staff salaries and other operating expenditures were paid through a general fund account established for distributed learning. However, there was no written agreement between the campus and DLEE to define the terms of the arrangement.

- ▶ CERF related expenses for telephone and pager service, postage, conferences, business cards and photocopies were disbursed from a general fund account established for distributed learning.
- ▶ Funds due to The Center for Legal Studies (CLS) from the CERF were disbursed from the general fund.

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

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

The director of accounting stated that, because the DLEE staff spends approximately 50% of its time working on the development of the campus' distance education program, it was agreed that the campus would reimburse DLEE for its time and expenses. He further stated that, although controls were in place for the authorization and reimbursement of expenditures, no written agreement has been developed to formalize the arrangement between the campus and DLEE. In addition, he stated that the above mentioned CERF related expenditures were included in the general fund budget for distributed learning, and the disbursement to CLS was a posting error that would be corrected.

Not maintaining a written agreement could result in improper expenditures and misunderstandings between the campus and DLEE, and fund integrity is compromised when accounting procedures do not adhere to GAAP.

### **Recommendation 3**

We recommend that the campus:

- a. develop an appropriate written agreement that defines the nature of the arrangement between the campus and DLEE and the basis and rationale for all expenditures subject to reimbursement;
- b. maintain the written agreement on file in the campus business office; and
- c. strengthen procedures to ensure that appropriate fund integrity is maintained between the CERF and the general fund.

### **Campus Response**

We concur. A memorandum of understanding between the university and DLEE that defines the nature of the arrangement and a procedure ensures that fund integrity is maintained will be completed by May 1. The written agreement will be maintained on file in the accounting office.

## **FEE SETTING, COLLECTION AND RECONCILIATION**

Tuition fees for Distributed Learning and Extended Education (DLEE) non-credit extension courses were not 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 authority to approve adjustments to campus user fees to the campus president.

The DLEE director stated that he sets fees for non-credit extension courses to cover expenses and provide an appropriate return to the campus; however, the campus president has not formally authorized him to do so.

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

### **Recommendation 4**

We recommend that the campus establish procedures to ensure that DLEE non-credit course fees are submitted to the fee advisory committee and properly approved.

### **Campus Response**

We concur. The campus has an established procedure for submitting student fees to the fee advisory committee. DLEE is now required to submit new non-credit course fees to the Fee Advisory Committee. All fee adjustments will be approved by the President.

## **FACULTY/INSTRUCTOR SELECTION AND SALARIES**

Campus procedures for monitoring compliance with the CSU additional employment policy were not adequate.

Faculty workload compliance is monitored through the appointment process; however, no documentation is maintained to support this review. In addition, faculty appointments for research, grants and contracts are not included in the campus review process.

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 and July 1, 1998 through June 30, 2001, state 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 acting assistant vice president of academic personnel services stated that workload compliance is reviewed as part of the faculty appointment process; however, this process has not been formalized.

Inadequately monitoring faculty workload increases the risk of non-compliance with the CSU additional employment policy.

#### **Recommendation 5**

We recommend that the campus formalize procedures to monitor faculty workload and include all additional employment.

#### **Campus Response**

We concur. The written procedure to monitor faculty workload including additional employment will be completed by June 30, 2000.

## **ENROLLMENT AND STUDENT RECORDS**

A non-discrimination statement was not included in certain Distributed Learning and Extended Education (DLEE) course schedules.

CSU directive EE81-25/SA 81-46, *Disabled Persons Enrolled in Summer Session, Special Session, and Extension Programs*, dated August 6, 1981, states that extension program bulletins should contain a non-discrimination statement as required by federal regulations.

The DLEE director noted that this statement was omitted from the DLEE Summer 1999 Course Schedule, which was prepared in great haste. He further stated that DLEE has alerted the university editor, who ensured that this required statement would appear in all future publications.

Failure to include the non-discrimination statement increases the risk of non-compliance with federal regulations.

**Recommendation 6**

We recommend that the campus ensure that a non-discrimination statement is included in all DLEE bulletins.

**Campus Response**

We concur. The non-discrimination statement was printed in the spring 2000 DLEE bulletin. All future DLEE bulletins will contain the non-discrimination statement.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Dr. Peter Smith	President
Beth Appenzeller	Director, Admissions and Records
Ron Bedry	Confidential Office Support, Academic Personnel
Don Cameron	Acting Vice-President, Academic Personnel
Chris Currie	Lead, Admissions and Records
Christine Frederick	Accounts Receivable Technician, Business and Finance
Dan Granger	Director, Distributed Learning and Extended Education
Delores Hermosillo-Sherry	Budget Manager, Business and Finance
Margaret Keith	Coordinator, Student Disability Resources
Barbara Lawson	Vice President, Business and Finance
Cindy Lopez	Interim Director, Research, Grants and Contracts
Cecilia Lucas	Accounting Manager, Business and Finance
Yolanda Munoz	Financial Analyst, Business and Finance
Margie Peralez	Cashier, Business and Finance
Carla Pew	Executive Assistant to the Provost and Vice-President, Academic Affairs
Resty Prospero	Director of Accounting, Business and Finance
Lina Richburg	Program Assistant, Distributed Learning and Extended Education
Holly Roller	Auxiliaries Accountant, Business and Finance
Vicki Roman-Reithknecht	Revolving Fund Coordinator, Business and Finance
Karen Sellick	Program Coordinator, Distributed Learning and Extended Education