

CONTINUING EDUCATION
CALIFORNIA MARITIME ACADEMY

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ABBREVIATIONS

| | |
|------|--|
| AB | Assembly Bill |
| CE | Continuing Education |
| CERF | Continuing Education Revenue Fund |
| CEU | Continuing Education Unit |
| CFO | Chief Fiscal Officer |
| CMA | California Maritime Academy |
| CO | Chancellor's Office |
| CSU | California State University |
| EO | Executive Order |
| FTES | Full-Time Equivalent Students |
| FY | Fiscal Year |
| HR | Human Resources |
| RFIN | Resolution of the Committee on Finance |
| SAM | State Administrative Manual |
| SPEL | Sponsored Projects and Extended Learning |

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2002, the Board of Trustees, at its January 2005 meeting, directed that *Continuing Education* be reviewed. Continuing Education was last audited in 1998 and 1999.

We visited the California Maritime Academy (CMA) campus from August 29, 2005, through September 30, 2005, and audited the procedures in effect at that time.

In our opinion, controls within selected areas of the continuing education function were not operating effectively and in compliance with existing California State University policies. Particular areas of concern included a loan and expenditure transfer, program evaluations, continuing education (CE) goals/objectives and position descriptions, delegations of authority, security of enrollment records, and various financial arrangements.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CONTINUING EDUCATION ADMINISTRATION [7]

The financial performance of CE at CMA was misstated in fiscal year 2004/05 due to a special fund loan and a transfer of expenditures to the General Fund. CE program evaluations were performed, however a formal plan to implement the recommendations had not been finalized, and the majority of the intended outcomes/results had not been achieved. In addition, CE mission statement, goals/objectives, and delegations of authority had not been adequately documented, some CE position descriptions were not kept current, and certain CE business arrangements had not been appropriately analyzed, defined, and documented. Further, the campus did not have a documented plan for accumulating continuing education revenue fund reserves. CE did not have a current policies and procedures manual to communicate control requirements to CE personnel. This is a repeat finding from the prior CE audit.

ENROLLMENT AND STUDENT RECORDS [13]

Security measures over CE records and confidential personal information were inadequate. Improved security would decrease the risk of inappropriate access and disclosure.

FINANCIAL MANAGEMENT [15]

Cash handling internal practices at CE were inadequate due to lack of segregation of duties (this is a repeat finding from the prior CE audit), lack of safeguarding of funds, and ineffective tracking or reconciliation of parking decals, lunch meal tickets, and non-credit course revenues. Allocation of revenues derived from enrollment of non-matriculated students in state-supported courses was not established by the campus president after consultation with the campus budget advisory committee. In addition, CE did not have formalized budget procedures to monitor the fiscal stability of the CE program. This a repeat finding from the prior CE audit.

INTRODUCTION

BACKGROUND

The State University Administrative Manual §3103 describes continuing education, in part, as follows:

The California State University (CSU) has been involved in continuing education since 1932, when Fresno State College established the system's first extension program. Originally comprising only in-service instruction for school teachers, continuing education now provides an increasingly broad spectrum of services to a large number of persons who seek advanced training to help them increase their occupational competency or otherwise enrich their lives.

Continuing education encompasses such activities as extension, summer session, non-credit instructional activities, grants for community services and development, foreign study, concurrent enrollment, and external degree programs. The continuing education program includes credit and non-credit courses offered off campus as well as on campus. These courses may be part of a structured external degree program, may count toward a conventional degree, may be part of a certificate/credential program, may be oriented to specific occupations, or may be offered in response to other special interests.

Continuing education revenues accrue from student fees paid for regular courses, workshops, conferences, short courses, independent study, contract courses, and external degree programs. Additional income is available from interest on surplus funds.

All campus net operating revenues accrue to campus reserves and are continuously available, without regard to fiscal year (FY), for future campus program expenses.

Continuing education also encompasses special sessions, which are described in Executive Order (EO) 802, *Special Sessions*, dated January 31, 2002, as a means whereby CSU instructional programs can be provided to matriculated students on a self-support basis at times and locations not supported by General Fund appropriations. Examples of special sessions include interim sessions between college year terms; programs of a continuing nature offered at military bases, correctional facilities, and other distant or isolated locations; and instructional programs for a specific client group.

On a systemwide basis, continuing education is administered by a state university dean for extended education who reports through an associate vice chancellor for academic affairs to the CSU executive vice chancellor and chief academic officer. Each campus typically has a continuing education dean or other person with a similar title generally reporting through academic affairs. The terms "continuing education" and "extended education" are considered synonymous.

At the campuses, auxiliary organizations might also be involved with continuing education and offer self-supporting instructional programs subject to the limitations in EO 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004, which states, in part, that the courses are non-credit and the

auxiliary cannot use the CSU name or representation in any manner other than where the CSU is part of the auxiliary's title.

Analytic Studies in the chancellor's office publishes a statistical report relevant to continuing education entitled, "CSU College Year Enrollment for Matriculants in Self-Support Special Sessions." Per EO 802, a matriculated student is a student who has, through normal procedures, been formally admitted to and enrolled at a CSU campus to pursue an authorized degree, credential, or certificate. An excerpt from two tables in the statistical report indicates that FY 2003/04 special session enrollments of full-time equivalent students (FTES) were as follows:

| Campus | FTES State-Support Matriculants | FTES Self-Support Matriculants |
|------------------|--|---|
| Bakersfield | 127.2 | 144.0 |
| Channel Islands | | |
| Chico | 101.1 | |
| Dominguez Hills | 398.4 | |
| East Bay | 86.1 | 249.4 |
| Fresno | 312.2 | 12.8 |
| Fullerton | 348.9 | 36.8 |
| Humboldt | 16.0 | |
| Long Beach | 392.5 | 247.7 |
| Los Angeles | 34.8 | |
| Maritime Academy | | |
| Monterey Bay | 105.2 | |
| Northridge | 955.4 | 58.0 |
| Pomona | 17.0 | 3.7 |
| Sacramento | 296.7 | 181.8 |
| San Bernardino | | 2.1 |
| San Diego | 60.0 | 242.3 |
| San Francisco | 91.6 | 33.1 |
| San José | 183.7 | 513.9 |
| San Luis Obispo | 27.6 | |
| San Marcos | 14.4 | |
| Sonoma | 332.4 | 115.4 |
| Stanislaus | 7.7 | |
| Total | 3,908.9 | 1,841.0 |

In late 1998, the 1998 Higher Education Omnibus Act (Assembly Bill - AB 2812) was enacted. AB 2812 permitted continuing education revenues to be deposited in trust accounts instead of the continuing education revenue fund (CERF) and amended Education Code §89704 and §89721. This action provided the CSU with additional flexibility and the advantage/capability to invest continuing education funds through trust in ways that would provide a higher rate of return. The CSU Investment Policy is described in the Resolution of the Committee on Finance (RFIN) 01-97-03. The basic difference is that funds in the CERF are part of the State Treasury, which only provides investment options in the Surplus Money Investment Fund and Local Agency Investment Fund. Trust funds have been invested mainly in the Met West program, which has three account options – short-term, medium-term, and long-term.

PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of *Continuing Education* and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

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

- ▶ Accountability for the continuing education function has been clearly defined and documented; and agreements/contracts, policies, and procedures are current, comprehensive, and aligned with relevant federal and state laws and regulations.
- ▶ Auxiliary organizations are involved in continuing education without offering academic course credits or identifying the CSU as the program provider.
- ▶ Continuing education fees are established in accordance with CSU directives, an appropriate strategy exists for development and management of CERF reserves, and controls over transfers to/from the CERF are adequate.
- ▶ Continuing education programs and courses are selected and delivered in accordance with CSU policies and state regulations, and degrees offered do not supplant state-supported degrees.
- ▶ Continuing education special sessions meet requisite CSU conditions, characteristics, and recordkeeping requirements; and out-of-state/country programs are managed in accordance with CSU policies.
- ▶ Continuing education program faculty selection processes ensure compliance with the CSU additional employment policy, and faculty compensation complies with CSU salary schedules, and collective bargaining provisions.
- ▶ Continuing education enrollment procedures, change of program, and maintenance of student records are adequate; and enrollment reporting is accurate and reliable for special sessions.

- ▶ Continuing education systems are secure, and use of social security numbers for student identification in continuing education is limited in accordance with systemwide policy.
- ▶ Non-matriculated, continuing education students have been allowed to enroll in state-supported courses only after meeting stipulated conditions.
- ▶ Programs/courses that award continuing education units (CEUs) comply with national standards and systemwide requirements.
- ▶ Internal control over continuing education cash receipts is adequate, accountability for program fees is established at the earliest possible time to prevent misappropriation of funds, and all collections are deposited intact or otherwise safeguarded in a timely manner.
- ▶ Continuing education revenues are reconciled to enrollments, and procedures exist to appropriately manage continuing education receivables and collect bad checks and other debts owed.
- ▶ Continuing education refund procedures ensure that all refunds are approved, accurately processed, and in compliance with campus policy.
- ▶ Established procedures ensure that continuing education expenditures are made only for the support and development of self-supporting instructional programs of the CSU.

SCOPE AND METHODOLOGY

The proposed scope of the audit, as presented in Attachment B, Agenda Item 2 of the January 25-26, 2005, meeting of the Committee on Audit, stated that *Continuing Education* includes special sessions, extension programs, and other self-supporting instructional programs and operation of the CERF and related trust accounts. Potential impacts include loss of budgetary control, inappropriate subsidies, inaccurate reporting, and increased exposure to enforcement.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. Industrywide standards such as those by the Western Association of Schools and Colleges (*Good Practices for Electronically Offered Degree and Certificate Programs*) and the International Association for Continuing Education and Training (*Criteria and Guidelines for Quality Continuing Education and Training Programs: The CEU and Other Measurement Units*) were also considered. The audit review period was FY 2003/04 to date.

At California Maritime Academy, the continuing education program reporting to the provost/vice president for academic affairs has overall responsibility for continuing education. The California

Maritime Academy Foundation, Inc. at the campus is not involved in delivery of non-credit, continuing education program offerings.

We focused primarily upon the internal administrative, compliance, and operational controls over continuing education management. Specifically, we reviewed and tested:

- ▶ Continuing education policies and procedures.
- ▶ Continuing education staffing and organization plans.
- ▶ The processes for planning, approving, and supervising continuing education activities.
- ▶ Continuing education programming decisions and selection of program offerings.
- ▶ Continuing education faculty-related matters.
- ▶ Continuing education enrollment, awarding of credit, and student recordkeeping.
- ▶ Management of continuing education funds and reserves.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CONTINUING EDUCATION ADMINISTRATION

LOAN/TRANSFER TRANSACTIONS

The California Maritime Academy (CMA) did not record a loan and inappropriately transferred continuing education (CE) expenditures to the General Fund resulting in a misstatement of cash and fund balances at fiscal year (FY) ended June 30, 2005.

In FY 2004/05, CE borrowed \$160,000 from the CMA Cruise Differential Trust Account. However, a note payable was not recorded on the CE financial statements and the related note receivable was not recorded on the CMA financial statements. At the time of the transaction, a loan document was drawn up, however it was not finalized and signed by approving authorities until three months after the transaction took place. These funds were originally derived from an arrangement whereby the campus had appealed to the chancellor's office (CO) for a budget augmentation to cover cruise salary obligations from settlement of a collective bargaining grievance.

In addition to the loan, CMA transferred \$279,000 of CE expenditures to the General Fund in FY 2004/05. CMA misconstrued this transaction as a loan, but nothing was recorded and the documentation was finalized and signed three months after the transaction took place.

Education Code 89760 states that the Trustees may transfer money from one special fund to another special fund or to the General Fund (but not from it) in order to meet the commitments of the California State University (CSU) if the transferred monies are returned to the special fund of origin in time to fulfill the purposes of the special fund. Interest shall be paid on all money transferred to another special fund or to the General Fund at a rate determined by the Trustees to be the current earning rate of the fund from which the money was transferred. This section does not authorize any transfer or loan of money to or from any special fund or the General Fund if the transfer or loan would impair a contractual obligation of the Trustees, including, but not necessarily limited to, contractual obligations incurred by the Trustees pursuant to the State University Revenue Bond Act of 1947.

Executive Order (EO) 648, *Policy Delegation of Fiscal Authority and Responsibility to California State University Presidents*, dated December 14, 1995, states in part, that the campus president is responsible for ensuring that appropriate controls are in place to ensure that funds are protected from misuse; and, that campus financial practices adhere to uniform accounting standards in accordance with Generally Accepted Accounting Principles for institutes of higher education.

The CMA controller and CMA budget officer stated that the necessity for the loan transfer stemmed from CE's financial deficit and their understanding that the continuing education revenue fund (CERF) could not close its books at the State Controller's Office with either a negative cash balance or a negative fund balance. They added that absent of any CSU directives that would provide guidance in this situation and given their immediate involvement in year-end close, it was decided

that the expenditures would be transferred to the General Fund into a separate account and that a tenable plan for repayment would be formulated shortly after year-end.

Charges to the General Fund for self-supporting organizations result in a misuse of appropriated funds and unrecorded loans result in inaccurate financial statements.

Recommendation 1

We recommend that the campus:

- a. Properly record the \$160,000 loan transaction.
- b. Immediately return the \$279,000 in CE expenditures to the General Fund.
- c. Establish options to correctly handle negative CE cash and fund balances should they occur in the future.

Campus Response

We concur. We are currently in the process of evaluating our options to properly record the \$160,000 loan transaction and return the \$279,000 to the General Fund. We are also awaiting systemwide guidance that would document the options available to correctly handle negative CE cash and fund balances at year-end should they occur in the future. It is our intention to resolve each of the issues by June 30, 2006, though it may take two fiscal years to repay the General Fund debt.

PROGRAM EVALUATIONS

A formal plan to finalize the recommendations from CE program evaluations had not been developed, and the majority of the intended outcomes/results had not been achieved.

Recent CE evaluations at CMA included an internal review by a committee appointed by the president. The committee report, dated April 2004, contained approximately 33 recommendations that the campus was still in the process of implementing.

Government Code §13403(a) states that administrative controls are the method through which reasonable assurances can be given that measures adopted to promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of administrative control, shall include, but are not limited to: an established system of practices to be followed in performance of duties and functions; personnel of a quality commensurate with their responsibilities; and an effective system of internal review.

The dean of sponsored projects and extended learning (SPEL) stated that the lack of a formal plan to implement the program evaluation recommendations was a result of poor management.

The absence of a formal plan to implement the CE program evaluation increases the likelihood that intended outcomes/results will not be achieved.

Recommendation 2

We recommend that the campus create a formal plan to finalize the disposition of the April 2004 report of the CE review committee.

Campus Response

We concur. We have created an advisory board comprised of faculty, industry, government, and alumni to review, assess, amend, and recommend to the dean of SPEL a formalized course of action based upon the April 2004 CE committee report by August 1, 2006.

GOALS/OBJECTIVES AND POSITION DESCRIPTIONS

CE mission statement and goals/objectives had not been adequately documented. In addition, some CE position descriptions were outdated or not signed.

Government Code §13403(a) states that administrative controls are the method through which reasonable assurances can be given that measures adopted to promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of administrative control, shall include, but are not limited to: an established system of practices to be followed in performance of duties and functions; personnel of a quality commensurate with their responsibilities; and an effective system of internal review.

The dean of SPEL stated that the lack of documented goals/objectives and outdated position descriptions were results of poor management.

The absence of documentation of the CE mission statement and goals/objectives creates and portrays an organizational environment lacking direction. Outdated or unsigned position descriptions result in a lack of awareness of organizational operations and duties.

Recommendation 3

We recommend that the campus:

- a. Document the CE mission statement and goals/objectives.
- b. Periodically review, update, and sign CE position descriptions.

Campus Response

We concur. We have, through a strategic planning process guided by the dean of SPEL, begun to establish and document the CE mission statement and goals/objectives. The dean of SPEL will also update all CE job descriptions, communicate them to staff, and obtain their signatures. All job

descriptions will be reviewed and updated yearly congruent with the employee annual review process. The above items will be in place by August 1, 2006.

DELEGATIONS OF AUTHORITY

Overall delegations of authority had not been adequately documented for applicable CE functions.

We noted that specific employees were given responsibility for reviewing and approving certain transactions but no documentation existed that authorized the responsibilities or the employee's acceptance of those responsibilities. In addition, documents and transactions were not consistently reviewed, approved, and signed by the person(s) who had been delegated the authority.

Government Code §13403(a) states that administrative controls are the method through which reasonable assurances can be given that measures adopted to safeguard assets, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of administrative control, shall include, but are not limited to: a plan that limits access to assets to authorized personnel who require these assets in the performance of their assigned duties; and an established system of practices to be followed in performance of duties and functions.

The dean of SPEL stated that the lack of documentation of delegations of authority and the lack of implementation of the approval process were results of poor management.

Inadequate documentation of CE's delegation of authority and the lack of implementation of the approval process increase the risk that assets will not be safeguarded and limited to necessary individuals.

Recommendation 4

We recommend that the campus fully document CE's delegation of authority and implement the necessary policies and procedures for the review, approval, and signature process.

Campus Response

We concur. The campus will fully document CE's delegation of authority and implement the necessary policies and procedures for the review, approval, and signature process by July 1, 2006.

BUSINESS ARRANGEMENTS

Certain CE business arrangements had not been appropriately analyzed, defined, and documented.

We found:

- ▶ A partial allocation of indirect costs for CMA services provided to CE did not include all of the campus provided services. The allocation was only for accounting services and did not include

the basis and rationale for the valuation of services. This allocation was done pursuant to an undated and unsigned document – General Fund Cost Allocation Plan.

- ▶ There was no written agreement with chargebacks to CE for the usage of CMA simulators.
- ▶ CE had an unwritten agreement with the campus to allow any matriculated student to enroll in CE classes at a discounted rate of 50%.
- ▶ CE had an informal agreement with the campus to allow any CMA faculty member to take the majority of CE courses free of charge if the fees of the enrolled students exceeded the cost of holding the course.
- ▶ CE had an unwritten agreement with the campus to allow any alumni association member to receive a 10% discount on any courses attended through CE.
- ▶ CMA received a \$30,000 donation from a maritime union, San Francisco Bar Pilots, in 1991. There was a quid pro quo in this donation that committed CMA to the provision of radar certification at no cost to member pilots through 2021. The radar certification was based on CE courses but the campus had not documented the extent of bar pilot participation or quantified the revenue foregone by omission of the approved fees that would have been assessed.

EO 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, states that auxiliary enterprises (such as CE) shall be charged the allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the university funded from the General Fund. Further, cost allocations shall be determined in accordance with a written cost allocation plan approved annually by the campus chief fiscal officer (CFO). The plan is to be reasonable and provide consistent estimation, accumulation, and reporting of related costs.

Government Code §13403(a) states that administrative controls are the method through which reasonable assurances can be given that measures adopted to check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of administrative control, shall include, but are not limited to: an effective system of internal review; and a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Article 26.3 of the Unit 3 Collective Bargaining Agreement with the California Faculty Association specifically states that courses in self-support programs may not be taken on the fee waiver program.

The dean of SPEL stated that the lack of documentation was a result of poor management.

Undocumented business arrangements detract from the ability to manage the CERF as a self-supporting operation and could result in improper activity and inaccurate or unrecorded CE liabilities.

Recommendation 5

We recommend that the campus:

- a. Allocate indirect costs to CE and obtain appropriate General Fund reimbursements in accordance with a written EO 753 plan annually approved by the CFO.
- b. Identify and document all CE business arrangements and include the basis and rationale for the valuations.
- c. Discontinue waiving fees for faculty participating in self-support CE courses.
- d. Analyze revenue lost through the 1991 arrangement with the San Francisco Bar Pilots and determine if alternate arrangements should be pursued.

Campus Response

We concur.

- a. The campus will allocate indirect costs to CE and obtain appropriate General Fund reimbursements in accordance with a written EO 753 plan including any appropriate reciprocity agreements with CE. The plan will be reviewed and approved annually by the CFO.
- b. SPEL will document all CE business arrangements and include the basis and rationale for the valuations.
- c. SPEL will discontinue waiving of fees for faculty participation in self-supported extended learning courses.
- d. The dean of SPEL will enter into discussions with the San Francisco Bar Pilots to ascertain the feasibility of setting up a new arrangement.

All of the above will be implemented by July 1, 2006.

RESERVE ACCUMULATION

The campus did not have a documented plan for accumulating CERF reserves.

Government Code §13403(a) states that administrative controls are the method through which reasonable assurances can be given that measures adopted safeguard assets, to promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of administrative control, shall include, but are not limited to: an effective system of internal review; and a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The dean of SPEL stated that the lack of documentation was a result of poor management.

The absence of a plan for the accumulation of reserves increases the risk of insufficient funds to cover contingencies and future program needs.

Recommendation 6

We recommend that the campus document a plan and basis for possible future reserves.

Campus Response

We concur. The campus will document a plan and basis for possible future reserves by June 30, 2006.

OPERATING POLICIES AND PROCEDURES

CE did not have a current policies and procedures manual to communicate control requirements to CE personnel. This is a repeat finding from a prior CE audit.

State Administrative Manual (SAM) §20003 states that the non-existence of policy and procedural or operational manuals is a sign of a vulnerable control system.

The dean of SPEL stated that the lack of documentation was a result of poor management.

Failure to properly document and communicate current policies and procedures to campus employees increases the risk of loss of assets.

Recommendation 7

We recommend that campus locate, update, and redistribute written policies and procedures to all CE personnel and keep a copy on file at the campus.

Campus Response

We concur. The campus will create, locate, update, and redistribute written policies and procedures to all CE personnel and keep a copy on file at the campus by August 1, 2006.

ENROLLMENT AND STUDENT RECORDS

Security measures over CE records and confidential personal information were inadequate.

We found that:

- ▶ Forms with credit card information, social security numbers, and copies of driver's licenses were

stored in lockable file cabinets in the CE area. However, file cabinets were not always locked when unattended and after hours.

- ▶ A fax machine that receives documentation with social security numbers and credit card information was located in a high traffic area that was accessible to the public.
- ▶ A computer disk of the CE database backup containing student social security numbers was found in an unsecured area.

CSU directive HR 2005-16, *Requirements for Protecting Confidential Personal Data*, dated April 8, 2005, states that each campus and the CO must take necessary measures to protect confidential personal information, which includes, but is not limited to social security numbers.

The dean of SPEL stated that CE management was in transition and that new policies and procedures to safeguard the records and personal information would be implemented as soon as possible.

Inadequate controls over hard-copy records and personal information increase the risk of inappropriate access to confidential data.

Recommendation 8

We recommend that the campus:

- a. Require file cabinets containing confidential information be kept locked when not in use and after hours.
- b. Relocate the CE fax machine to a private office in a more secured area.
- c. Store confidential CE information in a secured area.

Campus Response

We concur and will implement by April 30, 2006, the following recommendations:

- a. Require file cabinets containing confidential information be kept locked when not in use.
- b. Relocate the CE fax machine to a private office in a more secured area.
- c. Store confidential CE information in a secured area.

FINANCIAL MANAGEMENT

CASHIERING

Cash handling practices at CE were inadequate.

We found that:

- ▶ The same individual who processed the requests for refunds also collected, logged, and transferred course registration fees to campus cashiering, opened the mail, and posted the cash receipts to department accounting records. This is a repeat finding from the prior CE audit.
- ▶ There was no safe at the CE facility.
- ▶ Fees transferred to main cashiering were placed in an easily accessible open mail slot located in a high traffic area.
- ▶ Parking decal reconciliations did not include parking decal numbers.
- ▶ A reconciliation of lunch meal tickets was not performed.

SAM §8032.1 requires that receipts be adequately safeguarded until deposited. When such funds are not in use, they will be locked in a desk, file cabinet, or other mechanism providing comparable safekeeping.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls shall include a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets.

SAM §8080 requires an adequate separation of duties so that no one person processes cash receipts and refunds.

The dean of SPEL stated that due to limited resources, the administrative assistant/specialist course coordinator had to assume the above-listed duties. In addition, he stated that less than optimum safeguarding of assets/control over cash receipts and failure to make proper reconciliations were results of poor management.

Inadequate segregation of duties, less than optimum safeguarding of assets/control over cash receipts, and failure to make proper reconciliations increase the campus' risk of errors, irregularities, misappropriation, and loss from inappropriate acts.

Recommendation 9

We recommend that the campus:

- a. Review cashiering duties and take appropriate action to either segregate incompatible duties or establish effective mitigating controls.
- b. Acquire a safe for the CE facility.
- c. Ensure that fees are kept in a controlled area and hand delivered to the main cashier.
- d. Create a more effective parking decal reconciliation by including the parking decal numbers.
- e. Track lunch meal tickets by performing a monthly reconciliation.

Campus Response

We concur. All of the recommendations listed below shall be addressed and implemented prior to April 30, 2006.

- a. Review cashiering duties and take appropriate action to segregate incompatible duties or establish effective mitigating controls.
- b. Acquire a safe for the CE facility.
- c. Ensure that fees are kept in a controlled area and hand delivered to the main cashier.
- d. Create a more effective parking decal reconciliation that includes all parking decal numbers.
- e. Track lunch meal tickets by performing periodic reconciliations.

REVENUE RECONCILIATIONS

CE non-credit course revenues were not reconciled to enrollments.

SAM §7920 states that two types of reconciliations are made: (1) reconciliation of agency accounts with records other than those prepared by the agency; and (2) reconciliation of two or more accounts or other records kept by an agency. In addition, each agency is responsible to complete any reconciliation necessary to safeguard assets and ensure reliable financial data.

The CMA controller stated that the process for reconciling revenues from non-credit courses had not been formalized due to oversight.

Failure to prepare reconciliations compromises accountability and increases the risk that errors and irregularities will not be detected.

Recommendation 10

We recommend that the campus regularly prepare a reconciliation of revenue to enrollments for non-credit courses.

Campus Response

We concur. The campus will prepare a monthly reconciliation of CE revenue to enrollments for non-credit courses. This shall be implemented by May 1, 2006.

ALLOCATION OF REVENUES

Allocation of revenues derived from enrollment of non-matriculated students in state-supported courses was not established by the campus president after consultation with the campus budget advisory committee.

EO 805, *Policy Governing the Enrollment of Non-Matriculated Students in CSU State-Supported Courses and in CSU Self-Support Special Session Courses*, dated February 14, 2002, states that the allocation of all revenues derived from the enrollment of non-matriculated students in state-supported regular courses or in self-support special sessions shall be determined by the campus president, following consultation with the campus budget advisory committee. The CERF or campus trust (in accordance with established procedures) shall reimburse the General Fund expenditures associated with non-matriculated enrollments. Documentation of revenues and expenditures related to the program shall be maintained in sufficient detail to facilitate the conduct of evaluative studies.

The dean of SPEL stated that the lack of documentation was a result of poor management.

Failure to administer revenues in accordance with systemwide policy increases the risk of unsupported changes in revenue allocations and misunderstandings as to whether the General Fund is being appropriately reimbursed.

Recommendation 11

We recommend that the campus develop and implement processes/procedures to support the management of revenues and expenditures related to the enrollment of non-matriculated students.

Campus Response

We concur. The campus will develop and implement processes/procedures to support the management of revenues and expenditures related to the enrollment of non-matriculated students by July 1, 2006.

BUDGET PROCEDURES AND FINANCIAL EVALUATIONS

CE did not have formalized budget procedures to monitor the fiscal stability of the CE program. This is a repeat finding from the prior CE audit. In addition, financial program evaluations had never been performed.

EO 313, *Financial Management of Continuing Education*, dated August 1, 1979, states that each campus president is responsible for the financial and academic aspects of the self-supporting instructional programs operated by the campus through the CERF. It is the primary responsibility of the campus to monitor enrollments, revenues, and expenditures during any given FY to ensure the fiscal stability of its self-supporting instructional program. Budget changes should be initiated as necessary to ensure this fiscal stability.

The dean of SPEL stated that the lack of formalized budget procedures and financial evaluations was a result of poor management.

The absence of formalized budget procedures and financial evaluations increases the risk of deficits and jeopardizes the self-supporting nature of the CE program.

Recommendation 12

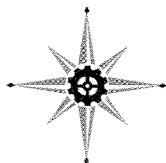
We recommend that the campus establish formalized budget procedures and perform CE financial evaluations to monitor the fiscal stability of the CE program.

Campus Response

We concur. The campus will establish formalized budget procedures, develop a budget, and perform CE financial evaluations to monitor the fiscal stability of the CE program by June 30, 2006.

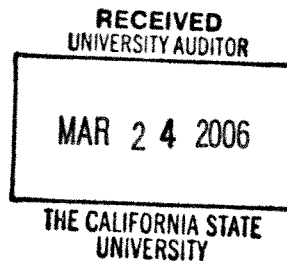
APPENDIX A: PERSONNEL CONTACTED

| <u>Name</u> | <u>Title</u> |
|-----------------------|--|
| William B. Eisenhardt | President |
| Michael Bittner | Dean of Sponsored Projects and Extended Learning, Continuing Education (CE) |
| Donna Carreon | Human Resources Analyst |
| Vineeta Dhillon | Purchasing Manager |
| Gale Gomez | Cashier |
| Stephen Kreta | Dean of Academics |
| Gay Kvilhaug | Accountant |
| Steve Mastro | Budget Officer |
| Mark Nickerson | Vice President of Administration and Finance |
| Rich Power | Network Specialist |
| Diane Rawicz | Director, California Maritime Academy Services |
| Cheri Sims | Payroll Technician |
| Ken Toet | Controller |
| Shelrey Woodson | Administrative Assistant/Course Coordinator, CE |
| Donald Zingale | Vice President of Academic Affairs |



CAL MARITIME

Vice President for Administration and Finance



March 24, 2006

Mr. Larry Mandel
University Auditor
CSU Office of the Chancellor
401 Golden Shore
Long Beach, CA 90802

RE: Response to CMA Audit Report Number 05-18, Continuing Education

Dear Mr. Mandel,

Please find enclosed our responses to your recommendations for the Continuing Education at California Maritime Academy Audit Report Number 05-18.

If there is more information we can provide you, please let me know.

Sincerely,

Mark Nickerson
Vice President for Administration and Finance

cc: William B. Eisenhardt, President
Don Zingale, Vice President for Academic Affairs
Michael Bittner, Dean of SPEL
Kent Toet, Controller
File

MN:ss

THE CALIFORNIA MARITIME ACADEMY

200 Maritime Academy Drive, Vallejo, CA 94590-8181 · PHONE (707) 654-1038 · FAX (707) 654-1013 · www.csum.edu · E-MAIL mnickerson@csum.edu

**CONTINUING EDUCATION
CALIFORNIA MARITIME ACADEMY**

**Report Number 05-18
February 17, 2006**

CONTINUING EDUCATION ADMINISTRATION

LOAN/TRANSFER TRANSACTIONS

Recommendation 1

We recommend that the campus:

- a. Properly record the \$160,000 loan transaction.
- b. Immediately return the \$279,000 in CE expenditures to the General Fund.
- c. Establish options to correctly handle negative CE cash and fund balances should they occur in the future.

Campus Response

We concur. We are currently in the process of evaluating our options to properly record the \$160,000 loan transaction and return the \$279,000 to the General Fund. We are also awaiting system wide guidance that would document the options available to correctly handle negative CE cash and fund balances at year end should they occur in the future. It is our intention to resolve each of the issues by June 30, 2006, though it may take two fiscal years to repay the general fund debt.

PROGRAM EVALUATIONS

Recommendation 2

We recommend that the campus create a formal plan to finalize the disposition of the April 2004 report of the CE review committee.

Campus Response

We concur. We have created an advisory board, comprised of faculty, industry, government and alumni to review, assess, amend and recommend to the Dean of SPEL a formalized course of action based upon the April 2004 CE Committee Report by August 1, 2006.

GOALS/OBJECTIVES AND POSITION DESCRIPTIONS

Recommendation 3

We recommend that the campus:

- a. Document the CE mission statement and goals/objectives.
- b. Periodically review, update, and sign CE position descriptions.

Campus Response

We concur. We have, through a strategic planning process guided by the Dean of SPEL, begun to establish and document the CE mission statement and goals/objectives. The Dean of SPEL will also update all CE job descriptions, communicate them to staff and obtain their signatures. All job descriptions will be reviewed and updated yearly congruent with the employee annual review process. The above items will be in place by August 1, 2006.

DELEGATIONS OF AUTHORITY

Recommendation 4

We recommend that the campus fully document CE's delegation of authority and implement the necessary policies and procedures for the review, approval, and signature process.

Campus Response

We concur. The campus will fully document CE's delegation of authority and implement the necessary policies and procedures for the review, approval, and signature process by July 1, 2006.

BUSINESS ARRANGEMENTS

Recommendation 5

We recommend that the campus:

- a. Allocate indirect costs to CE and obtain appropriate General Fund reimbursements in accordance with a written EO 753 plan annually approved by the CFO.
- b. Identify and document all CE business arrangements and include the basis and rationale for the valuations.
- c. Discontinue waiving fees for faculty participating in self-support CE courses.
- d. Analyze revenue lost through the 1991 arrangement with the San Francisco Bar Pilots and determine if alternate arrangements should be pursued.

Campus Response

We concur. The campus will allocate indirect costs to CE and obtain appropriate General Fund reimbursements in accordance with a written EO 753 plan including any appropriate reciprocity agreements with CE. The plan will be reviewed and approved annually by the CFO.

- a. SPEL will document all CE business arrangements and include the basis and rationale for the valuations.
- b. SPEL will discontinue waiving of fees for faculty participation in self-supported Extended Learning Courses.
- c. The Dean of SPEL will enter into discussions with SF Bar Pilots to ascertain the feasibility of setting up a new arrangement.

All of the above will be implemented by July 1, 2006.

RESERVE ACCUMULATION

Recommendation 6

We recommend that the campus document a plan and basis for possible future reserves.

Campus Response

We concur. The campus will document a plan and basis for possible future reserves by June 30, 2006.

OPERATING POLICIES AND PROCEDURES

Recommendation 7

We recommend that campus locate, update, and redistribute written policies and procedures to all CE personnel and keep a copy on file at the campus.

Campus Response

We concur. The campus will create, locate, update, and redistribute written policies and procedures to all CE personnel and keep a copy on file at the campus by August 1, 2006.

ENROLLMENT AND STUDENT RECORDS

Recommendation 8

We recommend that the campus:

- a. Require file cabinets containing confidential information be kept locked when not in use and after hours.

- b. Relocate the CE fax machine to a private office in a more secured area.
- c. Store confidential CE information in a secured area.

Campus Response

We concur and will implement by April 30, 2006 the following recommendations:

- a. That file cabinets containing confidential information be kept locked when not in use.
- b. Relocate the CE fax machine to a private office in a more secured area.
- c. Store confidential CE information in a secured area.

FINANCIAL MANAGEMENT

CASHIERING

Recommendation 9

We recommend that the campus:

- a. Review cashiering duties and take appropriate action to either segregate incompatible duties or establish effective mitigating controls.
- b. Acquire a safe for the CE facility.
- c. Ensure that fees are kept in a controlled area and hand delivered to the main cashier.
- d. Create a more effective parking decal reconciliation by including the parking decal numbers.
- e. Track lunch meal tickets by performing a monthly reconciliation.

Campus Response

We concur. All of the recommendations listed below shall be addressed and implemented prior to April 30, 2006.

- a. Review cashiering duties and take appropriate action to segregate incompatible duties or establish effective mitigating controls.
- b. Acquire a safe for the CE facility.
- c. Ensure that fees are kept in a controlled area and hand delivered to the main cashier.
- d. Create a more effective parking decal reconciliation that includes all parking decal numbers.
- e. Track lunch meal tickets by performing periodic reconciliations.

REVENUE RECONCILIATIONS

Recommendation 10

We recommend that the campus regularly prepare a reconciliation of revenue to enrollments for non-credit courses.

Campus Response

We concur. The campus will prepare a monthly reconciliation of CE revenue to enrollments for non-credit courses. This shall be implemented by May 1, 2006.

ALLOCATION OF REVENUES

Recommendation 11

We recommend that the campus develop and implement processes/procedures to support the management of revenues and expenditures related to the enrollment of non-matriculated students.

Campus Response

We concur. The campus will develop and implement processes/procedures to support the management of revenues and expenditures related to the enrollment of non-matriculated students by July 1, 2006.

BUDGET PROCEDURES AND FINANCIAL EVALUATIONS

Recommendation 12

We recommend that the campus establish formalized budget procedures and perform CE financial evaluations to monitor the fiscal stability of the CE program.

Campus Response

We concur. The campus will establish formalized budget procedures, develop a budget and perform CE financial evaluations to monitor the fiscal stability of the CE program by June 30, 2006.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

April 21, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 05-18 on *Continuing Education*,
California Maritime Academy

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of April 21, 2006, I accept the response as submitted with the draft final report on *Continuing Education*, California Maritime Academy.

MONTEREY BAY

NORTHRIDGE

CBR/jt

POMONA

Enclosure

SACRAMENTO

SAN BERNARDINO

cc: Dr. William B. Eisenhardt, President
Mr. Mark Nickerson, Vice President of Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS