

CONTINUING EDUCATION
CALIFORNIA STATE UNIVERSITY,
EAST BAY

Audit Report 14-59
December 12, 2014

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ABBREVIATIONS

APP	Academic Program Planning
CE	Continuing Education
CERF	Continuing Education Revenue Fund
CO	Office of the Chancellor
CSA	California State Auditor
CSU	California State University
EC	Education Code
EO	Executive Order
OAAS	Office of Audit and Advisory Services

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of Audit and Advisory Services (OAAS) during the last quarter of 2013, the Board of Trustees, at its January 2014 meeting, directed that *Continuing Education* (CE) be reviewed. The OAAS had previously reviewed CE in 2005.

We visited the California State University, East Bay campus from September 8, 2014, through October 10, 2014, and audited the procedures in effect at that time.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls for CE activities as of October 10, 2014, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report. Areas of concern include: business model and curriculum and fiscal administration.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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.

BUSINESS MODEL AND CURRICULUM [7]

The campus could not provide proof that it properly notified the chancellor’s office (CO) when it first offered its online bachelor of science in business administration in self-supported mode. In addition, the campus did not comply with conditions for enrollment of non-matriculated students in state-supported courses.

FISCAL ADMINISTRATION [9]

The campus did not document the nexus between expenditures made from campus revenue-share trust accounts and the specific CE self-supported program functions that benefitted from the expenditures.

INTRODUCTION

BACKGROUND

In 1971, the Continuing Education Reserve Fund (CERF) Act required each CSU campus to create extended education units to meet the emerging needs of a changing populace featuring academic flexibility and supplementary delivery methods. Extended education is entirely self-supported and reports to Academic Affairs.

Access to Excellence, the California State University (CSU) strategic system-level plan adopted by the Board of Trustees in 2008, lists the CSU's responsibility to meet post-baccalaureate needs, including those of working professionals, as one of its eight key commitments. Continuing education (CE) is identified in the plan as one way to expand capacity in underserved academic areas and promote better models for the training and retraining of working adults.

CE (also referred to as extended education) is defined as a means whereby the instructional courses and programs of the CSU can be provided on a self-supported basis at times and in locations not supported by the CSU Operating Fund. Continuing education in the CSU had its origins in the gold rush boom town atmosphere of San Francisco in the 1850s. As a result of complaints about the low quality of teaching in San Francisco's elementary schools, a normal school was established in San Francisco in 1857, later to evolve into a State Teachers College and eventually become one of the first state colleges in California. Classes were held Monday evenings so as not to interfere with daytime teaching assignments. In 1932, Fresno State College established the system's first extension program.

Since those early efforts at in-service instruction for schoolteachers, CE now provides an increasingly broad spectrum of services to a large number of professionals who seek retraining or advanced training to improve their job skills or obtain academic credit earned outside of the regular university model. CE offerings include specialized instruction designed to meet the needs of a certain region or a specific target population, as well as academic course offerings to supplement the campus academic program requirements. Examples of CE include interim sessions between college-year terms; course and degree program offerings scheduled at military bases, employment locations, organizations, correctional facilities, and other distant locations; and instructional programs for a specific client group requiring special services or scheduling accommodations.

At the request of the Joint Legislative Audit Committee, the California State Auditor (CSA) conducted an audit of CE in the CSU system in 2012/13 and issued the final report in December 2013. The CSA reviewed the chancellor's office (CO) and three campuses (San Jose, Sacramento, and Long Beach) and concluded that the system needed improvement in four areas: the supplanting of state-supported courses with self-supported courses; compliance with system policies for fee establishment; expenditure controls; and curricula and faculty hiring requirements.

In response to an audit recommendation by the CSA, the CO issued Executive Order (EO) 1099, *Extended Education: Self-Supporting Instructional Courses and Programs*, on June 9, 2014, which superseded four previous EOs related to CE. Although the CSA audit recommended that the CSU, in conjunction with the 2014 state legislature during its 2014 legislative session, clarify the definition of "supplant," the new EO does not address this, because the EO needed to be revised before a definition of supplanting was approved by the 2014 legislature. However, EO 1099 does state that self-supported

special sessions shall not supplant regular course offerings available on a non-self-supported basis during the regular academic year, and that the CSU shall not require state-supported matriculated students to enroll in self-supported courses in order to fulfill the graduation requirements of a state-supported degree program. Also, EO 1099 confirms the name change of CE funds from CERF to Extended Education Local Trust Fund.

Due to the timing of EO 1099, the audit scope will cover activities and transactions that occurred prior to the new policy, and therefore were subject to the superseded EOs. The relevant EOs that pertain to CE are noted below, along with other remaining criteria.

EO 341, *Use of Surpluses in the Continuing Education Revenue Fund*, dated March 31, 1981, outlines the expectations that CERF surpluses, at both the system and the campus levels, shall be used exclusively for the support and development of self-supported continuing education.

EO 795, *Procedures Governing Self-Supporting Programs Outside the State of California, Conducted Through the Continuing Education Revenue Fund or Local Trust Accounts*, dated November 12, 2001, defines out-of-state and out-of-country self-supported instructional programs, specifies the procedures for depositing funds into CERF, and establishes that these programs are subject to the same policies applicable to in-state governing self-supported instructional programs.

EO 805, *Policy Governing the Enrollment of Non-Matriculated Students in CSU State-Supported Courses and in CSU Self-Support Special Sessions Courses*, dated February 14, 2002, establishes the conditions under which non-matriculated students may enroll in CSU state-supported courses or in self-supported special sessions. It includes provisions to ensure that the potential enrollment of non-matriculated students does not impact the availability of seats for matriculating students or the class size in a state-supported course; nor that it be used as a basis for determining the number of available course sections. The EO also states that the CE revenues generated from the fees from non-matriculated students be allocated in a manner that fairly reimburses the general fund for any costs associated with the students' inclusion in the class.

EO 806, *Certificates and Certificate Programs*, dated February 14, 2002, defines the requirements for offering CE certificate programs and allows the campus, at its discretion, to allow academic credit for certain programs. It further encourages campuses to establish policies and procedures for certificate programs.

EO 1047, *Special Sessions*, dated May 10, 2010, addresses the procedures to be followed by each campus of the CSU in offering special sessions courses and programs including during summer sessions and winter intersession.

Education Code (EC) §89704 requires that revenues received from CE operations may be deposited into CERF, and that proceeds are to be used for the support and development of self-supported instructional programs of the CSU. It also allows for the revenues to be pledged for the acquisition, construction, and improvement of facilities for CE programs, special sessions, and other instructional programs pursuant to the State University Revenue Bond Act of 1947. EC §89721 allows the option to place CE revenues in local trust accounts as an alternative to CERF.

EC §89708 requires that tuition fees charged for CE special sessions shall be adequate, in the long run, to meet the cost of maintaining the programs, and further states that self-supported special sessions shall not supplant regular course offerings available on a non-self-supported basis during the regular academic year.

The CSU provides advisory oversight to CE via various commissions and task forces. The Commission on the Extended University, confirmed by EO 811 in 2002, has served as the advisory group to the chancellor on issues and opportunities facing CE at each campus. The commission is chaired by a campus president; membership includes, but is not limited to, faculty nominated by the academic senate, vice presidents for academic affairs, campus deans for CE, and one other campus president. At the chancellor's office, the Extended Education department in Academic Affairs, under the state university dean, provides leadership and advisement to CO executives, the Commission on the Extended University, campus presidents and senior management, and other internal and external groups in furthering the mission of the CSU through self-supported activities. It also provides guidance to campuses regarding applicable CO policies and state and federal laws.

In 2005, the OAAS conducted an audit of CE at six campuses and issued a systemwide report. The report noted issues related to large reserve accumulations without commensurate spend-down plans or policies on negative balances; inadequate or non-existent cost allocation plans; the investment opportunities of using local trust funds rather than the state treasury CERF fund; the use of campus names and logos on auxiliary-owned CE educational program marketing materials; and cash control and revenue reconciliation exceptions.

PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to CE and to determine the adequacy of controls that 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:

- ▶ Administration of CE is well-defined and includes clear lines of organizational authority and responsibility and documented delegations of authority.
- ▶ Policies and procedures relating to CE are current and comprehensive and are effectively communicated to appropriate stakeholders.
- ▶ Auxiliary organization involvement in CE operations and programs is in accordance with CSU policy and directives.
- ▶ CE course offerings are selected and administered in accordance with CSU policies and state regulations, and state-supported degrees and courses are not supplanting those offered on the state side.
- ▶ CE program faculty and instructor selection processes ensure compliance with CSU policies and collective bargaining agreements.
- ▶ Budgets are established based on enrollment and revenue projections, and fiscal-year-end balances are subject to carry-forward expenditure plan requirements, when applicable.
- ▶ Revenues from CE programs and activities are appropriately and exclusively expended for the support and development of self-supported instructional programs.
- ▶ Fees for CE courses and programs are established in accordance with CSU policy.
- ▶ CE student enrollment systems are adequately secured from unauthorized access.

SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Audit Agenda Item 4 of the January 28 and 29, 2014, meeting of the Committee on Audit stated that *Continuing Education* (CE) includes review of the processes for administration of CE and extended learning operations as self-supported entities; budgeting procedures, fee authorizations, and selection and management of courses; faculty workloads and payments to faculty and other instructors; enrollment procedures and maintenance of student records; and reporting of CE activity and maintenance of CERF contingency reserves.

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 whether fiscal, operational, and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with federal and state regulations and guidance, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from January 1, 2012, through October 10, 2014.

We focused primarily on the internal administrative, compliance, and operational controls over CE activities. Specifically, we reviewed and tested:

- ▶ Compliance with policies designed to prevent the supplanting of state-supported degrees and courses with self-supported counterparts.
- ▶ Budgeting processes, including revenue projection methodologies and proper identification and reporting of fund balances at fiscal year-end.
- ▶ CE expenditures to ensure they are in accordance with requirements that revenues and funding are used for the support and development of self-supported instructional programs.
- ▶ Partnership agreements and cost allocation plans that support transfers and expenditures from CERF.
- ▶ Faculty and instructor pay.
- ▶ Fee establishment processes for CE courses and programs.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

BUSINESS MODEL AND CURRICULUM

DEGREE PROGRAMS IN SELF-SUPPORTED MODE

The campus could not provide proof that it properly notified the chancellor's office (CO) when it first offered its online bachelor of science in business administration in self-supported mode.

Executive Order (EO) 802, *Special Sessions*, dated January 31, 2002, states that the CO should be notified when previously approved, state-supported degree or credential programs are first offered in self-supported mode.

Academic Program Planning (APP) policy, *Offering Previously Approved State-Support Programs in Self-Support Mode*, dated December 12, 2007, states that the CO shall be notified when previously approved, state-supported degree or credential programs are first offered in self-supported mode through special sessions.

EO 1031, *Systemwide Records/Information Retention and Disposition Schedules Implementation*, dated February 27, 2008, states that each campus president is responsible for ensuring that the appropriate campus department(s) implements the records/information retention and disposition schedules for that department.

California State University (CSU) *Records and Information Retention and Disposition Schedule*, dated May 18, 2009, states that proposals for new degree programs, courses, changes, and academic authorizations have a permanent retention period.

The provost and vice president of academic affairs stated his belief that the official record of authorized programs is maintained by the CO and is published on the website. He further stated that California State University, East Bay's self-supported online bachelor of science in business administration appears on the official record as an authorized program.

Non-compliance with the academic program approval process increases the risk that curricula will not meet CSU and accreditation academic standards and exposes the campus and the system to academic reputation risk.

Recommendation 1

We recommend that the campus maintain proof of proper notifications to the CO when implementing changes to degree programs offered in self-supported mode.

Campus Response

On December 18, 2014, the associate vice president of university extension sent an e-mail to the provost and to the associate vice president of academic programs and graduate studies reminding

them to retain copies of notification to the CO of all degree programs. The campus will provide a copy of the e-mail by January 15, 2015.

ENROLLMENT OF NON-MATRICULATED STUDENTS IN STATE-SUPPORTED COURSES

The campus did not comply with conditions for enrollment of non-matriculated students in state-supported courses.

We reviewed the ratio of matriculated to non-matriculated students in courses over academic years 2011/12, 2012/13 and 2013/14, and we found 74 courses for which the percentage of non-matriculated students was greater than 50 percent. We selected 20 of these for further review, and we found that:

- ▶ Seven courses were part of a grant-funded certificate program for existing K-8 teachers that were offered via state-funded, rather than self-supported, sections, even though the enrollment was composed almost exclusively of non-matriculated students who enrolled via the Open University option.
- ▶ Three courses were composed exclusively of a low number (one or two) of non-matriculated students.

EO 805, *Policy Governing the Enrollment of Non-Matriculated Students in CSU State-Supported Courses and in CSU Self-Support Special Sessions Courses*, dated February 14, 2002, states that enrollment or potential enrollment of non-matriculated students in state-supported courses shall not be the basis for the addition of a course that would otherwise be canceled because of low enrollment of regularly matriculated students.

The associate vice president of university extension stated that the courses offered as part of the grant-funded program were open to matriculated students as well, and that matriculated students were given enrollment priority as required. He further stated that the three courses that remained open with only one or two non-matriculated students were part of the campus effort to assist students who are pre-matriculating, or who have been previously disqualified and are attempting re-matriculation.

The lack of compliance with conditions for allowing non-matriculated students into state-supported courses exposes the campus to questions regarding whether state funding is being used properly.

Recommendation 2

We recommend that the campus comply with conditions for enrollment of non-matriculated students in state-supported courses.

Campus Response

The registrar will monitor low enrollment state-supported courses offered each quarter and report to the provost. The associate vice president of university extension will further review courses to ensure

compliance with EO 805. The campus will provide a report of low enrollment in state-supported courses offered for winter quarter 2015 by March 15, 2015.

FISCAL ADMINISTRATION

The campus did not document the nexus between expenditures made from campus revenue-share trust accounts and the specific continuing education (CE) self-supported program functions that benefitted from the expenditures.

We reviewed 19 transactions totaling almost \$228,800 made from various Continuing Education Revenue Fund (CERF) funds, and we found seven totaling \$179,932 for which the campus could not provide documentation to support the nexus to self-supported programs:

College of Science

- ▶ \$614 for a telescope
- ▶ \$903 for three filing cabinets
- ▶ \$1,499 for a laptop for a faculty member
- ▶ \$55,930 for 24 student microscopes
- ▶ \$70,258 for minor capital improvements in the science building

Library

- ▶ \$45,728 for 48 laptops

College of Letters, Arts, and Social Sciences

- ▶ \$5,000 for research and development of an option for a state-supported degree program

Education Code (EC) §89704 requires that revenues received from CE operations be deposited into CERF, and that proceeds be used for the support and development of self-supported instructional programs of the CSU.

The California State Legal Manual, Chapter 6, *Extended Education*, states that extended education funds are specifically restricted for the support and development of extended education instructional programs.

CERF Program Reinvestment Allocation Guideline, dated July 1, 2010, states that program reinvestment is funding for the development of new or the enhancement of existing self-supported programs.

The vice president of administration and finance and chief financial officer stated his belief that documentation to support the nexus between the expenditures and self-supported activities was not required at the time the expenditure was initiated, and that the campus' ability to describe the self-supported program justification after the fact was sufficient to meet current criteria requirements of the referenced policy, EC section, and California State Legal Manual. He further stated his belief that in all but one case (\$5,000 for research and development), the campus was able to identify the specific self-supported program or programs that benefitted directly from the expenditure of funds.

Incomplete documentation to support the proper usage of CE funds increases the risk of inappropriate expenditures and jeopardizes the viability of campus self-supported instructional programs in accordance with EC requirements.

Recommendation 3

We recommend that the campus document the nexus between expenditures made from campus revenue-share trust accounts and the specific CE self-supported program functions that benefit from the expenditures.

Campus Response

A new business process guide for CERF expenditures will ensure that all disbursements are reviewed and approved by the associate vice president of university extension. The business process guide will clarify that CERF funds must be expended only for the support and development of self-supported programs. The campus will provide a copy of the business process guide by January 31, 2015.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Leroy M. Morishita	President
Brian Cook	Associate Vice President, University Extension
Monique Cornelius	University Budget Officer
Maggie Graney	Director, Compliance and Internal Control
Darrell Haydon	Associate Vice President, Financial Services
James Houpis	Provost and Vice President, Academic Affairs
Benjamin Hylton	General Accounting Manager
Michael Leung	Dean, College of Science
Dayrll Lewis	Purchasing Manager
Sherry Pickering	Director, Fiscal Services
Brad Wells	Vice President, Administration and Finance and Chief Financial Officer



CALIFORNIA STATE UNIVERSITY EAST BAY

Office of the Vice President, Administration and Finance & Chief Financial Officer CALIFORNIA STATE UNIVERSITY, EAST BAY 25800 Carlos Bee Boulevard, Hayward, CA 94542-3002 510.885-3803 • 510.885.4745 (fax) • www.cruceastbay.edu

January 6, 2015

Mr. Larry Mandel Vice Chancellor and Chief Audit Officer The California State University 401 Golden Shore Long Beach, CA 90802

RECEIVED AUDIT AND ADVISORY SERVICES JAN - 6 2015 THE CALIFORNIA STATE UNIVERSITY

RE: Campus Response to Incomplete Draft Audit Report Continuing Education (14-59), California State University, East Bay

Dear Mr. Mandel,

The campus has provided our corrective action plan, with responses and deadlines to the above audit recommendations via e-mail to your office today.

I have reviewed and approved them.

Please let us know if you have any questions or need additional information.

Sincerely,

Handwritten signature of Bradley Wells

Bradley Wells Vice President, Administration & Finance, CFO

cc: Leroy M. Morishita, President Maggie Graney, Director of Compliance and Internal Control

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

Audit Report 14-59

BUSINESS MODEL AND CURRICULUM

DEGREE PROGRAMS IN SELF-SUPPORTED MODE

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THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

January 16, 2015

CHICO

DOMINGUEZ HILLS

MEMORANDUM

EAST BAY

TO: Mr. Larry Mandel
Vice Chancellor and Chief Audit Officer

FRESNO

FULLERTON

FROM: Timothy P. White
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 14-59 on *Continuing Education*,
California State University, East Bay

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of January 16, 2015, I accept the response as submitted with the draft final report on *Continuing Education*, California State University, East Bay.

MONTEREY BAY

NORTHRIDGE

TPW/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS