

Audit and Advisory Services
401 Golden Shore
Long Beach, CA 90802-4210

562-951-4430
562-951-4955 (Fax)
lmandel@calstate.edu

January 22, 2020

Dr. Soraya M. Coley, President
California State Polytechnic University, Pomona
3801 W. Temple Avenue
Pomona, CA 91768

Dear Dr. Coley:

**Subject: Audit Report 19-10, *Professional and Continuing Education*,
California State Polytechnic University, Pomona**

We have completed an audit of *Professional and Continuing Education* as part of our 2019 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

CSU Campuses

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay
Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San José • San Luis Obispo • San Marcos • Sonoma • Stanislaus



The California State University
Audit and Advisory Services

PROFESSIONAL AND CONTINUING EDUCATION
California State Polytechnic University, Pomona

Audit Report 19-10
November 18, 2019

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to Professional and Continuing Education (PACE) and to evaluate adherence to relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for PACE as of August 22, 2019, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Although the objectives of this audit were met, the issues identified indicate that some attention is needed to ensure that PACE operational, administrative, and financial operations are in conformance with existing policies and are at a level necessary to meet management expectations. Specifically, we found that financial operations needed improvement, as PACE expenditures were not properly documented to show a clear and appropriate connection for the overall support and development of self-supporting instructional programs. In addition, financial controls to ensure proper authorization for PACE expenditures and classification of assets for capitalization needed improvement. Further, we found that revenues from continuing education unit-bearing programs were not deposited into the California State University (CSU) PACE Operations Fund as required by regulation and systemwide policy. Also, we found that the campus had not established a standardized process for documentation and approval of reserves, and the College of the Extended University (CEU) had not retained documentation showing how the amount of designated reserves was determined. We were also unable to validate that all required program proposal and fee approvals were obtained as required by campus and systemwide policy, and we found that program development policies and procedures did not reflect current systemwide policy or campus practices. Additionally, we noted that the campus did not have an executed contract for services provided by campus employees for the benefit of the CPP Foundation, Inc. (Foundation), as required by the master operating agreement, and access controls over the locally managed Jenzabar student registration system needed improvement.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. PACE FUND EXPENDITURES

OBSERVATION

PACE fund expenditures were not properly documented to show a clear and appropriate connection between the expenditures and the overall support and development of self-supporting instructional programs, and certain financial controls needed improvement.

We reviewed 30 expenditures totaling \$284,046 made from the CEU and campus partner funds, and we found that:

- Twelve of 30 expenditures did not include documentation showing a clear and appropriate connection between the expenditures and self-supporting instructional programs that benefited from them. Each of these exceptions was from the campus partners PACE fund (TM002), the account that holds the academic department share of PACE program proceeds.
- One expenditure by a campus partner was paid from the CEU PACE fund (TM001) instead of the campus partners PACE fund (TM002), and therefore was not approved by appropriate individuals with signature authority over the TM001.
- One expenditure included equipment costing more than the campus \$5,000 capitalization threshold, and the campus did not provide sufficient documentation showing that the equipment had been asset-tagged and recorded in the campus asset tracking module.

Complete documentation of PACE expenditures decreases the risk of inappropriate use of PACE funds and ensures compliance with the California Education Code, and proper capture of assets subject to capitalization provides greater assurance that state assets are accounted for properly.

RECOMMENDATION

We recommend that the campus:

- a. Develop a process to document a clear and appropriate connection between PACE expenditures and self-supporting instructional programs that benefit from the expenditures, and communicate the standards to appropriate employees.
- b. Develop a more effective process for reviewing activity in the PACE funds to ensure proper accounts are used for expenditures.
- c. Develop a more effective process for identifying purchases of equipment subject to capitalization threshold policies.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Develop a process to document a clear and appropriate connection between PACE expenditures and self-supporting instructional programs that benefit from the expenditures, and communicate the standards to appropriate employees.
- b. Develop a more effective process for reviewing activity in the PACE funds to ensure proper accounts are used for expenditures.
- c. Develop a more effective process for identifying purchases of equipment subject to capitalization threshold policies.

Expected completion date: March 31, 2020

2. CONTINUING EDUCATION UNITS REVENUES

OBSERVATION

Revenues from continuing education unit-bearing programs were not recorded and deposited to the PACE Operations Fund as required by regulations and systemwide policy.

We found that the CEU offered 11 courses that awarded continuing-education units, all of which were initially offered as non-credit courses sponsored by the Foundation. In 2016/17, three of these courses were converted to unit-bearing courses that awarded continuing-education units and were sponsored by the campus. In 2017/18, an additional seven courses were converted, and one more course was converted in 2018/19. However, although the conversion was approved, revenues from the courses were not subsequently recorded or deposited to the PACE Operations Fund, as required for courses awarding continuing-education units.

Proper recording and deposit of PACE revenues ensures compliance with regulations and reduces the risk that PACE funds will be improperly used.

RECOMMENDATION

We recommend that the campus:

- a. Develop a process to record and deposit continuing-education unit revenues in the correct PACE fund.
- b. Determine the amount of revenue owed to the PACE Operations Fund, and transfer the funds appropriately.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Develop a process to record and deposit continuing-education unit revenues in the correct PACE fund.
- b. Determine the amount of revenue owed to the PACE Operations Fund, and transfer the funds appropriately.

Expected completion date: February 28, 2020

3. RESERVES

OBSERVATION

Campus and business unit financial reserve practices needed improvement.

We found that the campus had not established a standardized process for documentation and approval of reserves established in accordance with systemwide policy. Absent a standardized campus process, CEU designated a total of \$3,507,460 for fund TM001 and \$1,094,285 for fund TM002 in reserves for the fiscal year ending June 30, 2019, but did not retain documentation to support the determination of the designated reserve amount.

An established reserve process provides greater assurance of financial stability and a basis for establishing an adequate and justified reserve amount.

RECOMMENDATION

We recommend that the campus establish a standardized process for establishing reserves that includes, but is not limited to, guidance on appropriate support and documentation to justify reserve amounts.

MANAGEMENT RESPONSE

We concur. The campus will establish a standardized process for establishing reserves that includes, but is not limited to, guidance on appropriate support and documentation to justify reserve amounts.

Expected completion date: March 31, 2020

4. PROGRAM PROPOSALS AND FEE APPROVALS

OBSERVATION

The campus did not maintain documentation showing that all required program proposal and fee approvals were obtained as required by campus and systemwide policy.

We reviewed seven self-support instructional program proposals. We found that the campus could not locate required proposal and fee approvals by campus individuals for one master's degree program or fee approvals for two credit-bearing certificate programs. As such, we could not determine whether approvals were obtained as required by campus and systemwide policy.

Proper administration of proposals helps to ensure that necessary reviews and approvals are properly obtained.

RECOMMENDATION

We recommend that the campus establish a process to ensure that proposals are complete and properly maintained, and remind key personnel involved in program development of the review and approval requirements.

MANAGEMENT RESPONSE

We concur. The campus will establish a process to ensure that proposals are complete and properly maintained, and remind key personnel involved in program development of the review and approval requirements.

Expected completion date: March 31, 2020

5. POLICIES AND PROCEDURES

OBSERVATION

Program development policies and procedures did not reflect current systemwide policy or campus practices.

We found that the CEU had established policies and procedures for the development of continuing education unit-bearing programs and Foundation-sponsored non-credit programs, but these policies did not include systemwide requirements and did not reflect current practices.

Specifically:

- The campus *Policy for Granting CEUs for Non-Academic Credit Programs* did not note that CEU credit-bearing program fees must be approved by the campus president; however, current systemwide policy requires the president's approval of all extended education fees for campus-sponsored programs (Category V fees).

- The *CEU Program Development: Program Launch Cycle* indicated that both the Fee Advisory Committee and president must approve non-credit programs. However, in practice, non-credit programs were not submitted to the Fee Advisory Committee nor the president for approval, as non-credit programs are sponsored by the Foundation.

Current and complete policies and procedures help to ensure that program proposals are adequately reviewed and approved and meet campus and systemwide expectations.

RECOMMENDATION

We recommend that the campus review and update program development policies and procedures to reflect current systemwide requirements and campus practices, and communicate all updates to relevant employees.

MANAGEMENT RESPONSE

We concur. The campus will review and update program development policies and procedures to reflect current systemwide requirements and campus practices, and communicate all updates to relevant employees.

Expected completion date: March 31, 2020

6. CONTRACTS FOR CAMPUS SERVICES

OBSERVATION

The campus, in conjunction with the Foundation, did not have an executed agreement/contract for services performed by state employees for the benefit of the Foundation.

Specifically, we found that stateside employees in the CEU provided enrollment and registration services, information technology system management, some accounting services, and management oversight for non-credit-bearing programs offered by the Foundation. Although the Foundation reimbursed the CEU for these services, there was no executed agreement that included all the provisions required by Provision 14, Contracts for Campus Services, of the auxiliary operating agreement, including:

- Indication of full reimbursement to the campus for services performed by state employees.
- The specific services to be provided by state employees.
- The specific performance measures used by the Foundation to measure or evaluate the level of service.
- Acknowledgement that the Foundation does not retain the right to hire, supervise, or otherwise determine how to fulfill the obligations of the campus to provide the specified services.

Proper administration of campus and Foundation agreements helps to ensure compliance with systemwide policies and inclusion of required terms and provisions, and reduces the risk of misunderstandings of responsibilities and liabilities.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, execute a written agreement for campus services provided to the Foundation that includes the required provisions noted above.

MANAGEMENT RESPONSE

We concur. The campus will, in conjunction with the Foundation, execute a written agreement for campus services provided to the Foundation that includes the required provisions noted above.

Expected completion date: April 30, 2020

7. ACCESS CONTROLS

OBSERVATION

Access controls over the Jenzabar registration system needed improvement.

We found that the CEU used the Jenzabar Registration System for enrollment and registration of non-academic credit-bearing courses and programs. Access to this system was managed by the CEU, as it was specific to the CEU and not used by other colleges or departments on campus.

We reviewed a list of 29 current users for the system and found that four student assistants were no longer active employees with CEU. Additionally, the CEU did not have a documented process for provisioning approved additions, changes, and terminations of access rights or for reviewing access for existing account holders, as required by systemwide policy.

Proper administration of system access decreases the risk of unauthorized access to student and customer personal data.

RECOMMENDATION

We recommend that the campus, in conjunction with CEU, establish and implement procedures that address provisioning of access to the Jenzabar Registration System, administration of access changes and terminations, and routine review of access rights.

MANAGEMENT RESPONSE

We concur. The campus will, in conjunction with CEU, establish and implement procedures that address provisioning of access to the Jenzabar Registration System, administration of access changes and terminations, and routine review of access rights.

Expected completion date: January 31, 2020

GENERAL INFORMATION

BACKGROUND

In 1971, the California legislature passed the Continuing Education Revenue Fund (CERF) Act, which required each CSU campus to create extended education units provided by PACE operations. On average, the 23 campuses process 300,000 PACE enrollments each year. Units awarded through PACE programs provide a way for the CSU to meet the education and training needs of individuals and groups who might not otherwise be served by the CSU and allow campuses to operate on a self-support basis at times and locations not supported by the CSU Operating Fund.

PACE provides a broad spectrum of services, including professional development and job training courses; certificate and degree programs; courses delivered online, off-campus, or at non-traditional times; courses for personal enrichment; and courses delivered between academic terms. Courses may provide academic credit or continuing education units, or may be offered on a non-credit basis. There are certain limitations on PACE offerings, including the requirement that offerings not supplant regular state-supported course offerings, and that state-supported matriculated students not be required to enroll in self-support courses in order to fulfill graduation requirements. Additionally, basic teacher credential programs are generally not allowed to be offered through PACE.

The assistant vice chancellor and dean of PACE at the Office of the Chancellor (CO) provides overall oversight and administration for PACE at the systemwide level. In addition, the Commission on the Extended University, established in 2002, advises the chancellor regarding the issues and opportunities facing PACE programs at each of the campuses.

The California State Auditor (CSA) conducted an audit of PACE in the CSU system in 2012/13 and issued the final report in December 2013. As a result, the CO revised systemwide policy related to PACE and issued Executive Order (EO) 1099, *Extended Education: Self-Supporting Instructional Courses and Programs*, in June 2014 and again in October 2018. Additionally, the CO worked with the legislature to clarify the definition of supplanting, which resulted in Assembly Bill 716 being passed in September 2015. The bill amended Education Code §89708 and defined supplanting as reducing the number of state-supported course offerings while increasing the number of self-supporting versions of that course.

At California State Polytechnic University, Pomona (CPP), PACE is housed in the CEU and is headed by a dean who reports to the provost in Academic Affairs. The college oversees Open University, a program allowing individuals to enroll in college courses without being admitted to the university on a space-available basis; summer session; master's degrees; and certificate courses. Some programs are offered online, while others require in-person attendance.

SCOPE

We visited the CPP campus from July 22, 2019, through August 22, 2019. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2017, through August 22, 2019.

Specifically, we reviewed and tested:

- PACE administration and organization, including clear lines of organizational authority and responsibility, defined mission and goals, and current and comprehensive policies and procedures.
- Processes for the development and approval of PACE course offerings, including compliance with state regulations relating to supplanting of state-supported courses, and systemwide policy for approving degree programs.
- Processes for enrollment of non-matriculated students in state-supported courses.
- Establishment and modification of PACE fees.
- Administration of PACE revenues and expenditures for the support and development of self-supported instructional programs.
- Appropriate review and execution of contracts with internal and external providers.
- Reimbursement to the CSU Operating Fund for PACE costs.
- Maintenance and approval of PACE reserves.
- Controls limiting access to stand-alone PACE systems to appropriate personnel.
- Appropriate risk management processes for higher risk programs, including those involving minors.

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.

Our testing and methodology, which was designed to provide a review of key administrative, financial, and operational controls, included interviews, walkthroughs, and detailed testing on certain aspects of the campus PACE program. Our review was limited to gaining reasonable assurance that essential elements of the PACE program were in place and did not examine all aspects of the program.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- Education Code (EC) §89700 to §89712, *Fees, Rents and Charges*
- EC §89720 to §89726, *Revenues*

- Government Code §13402 and §13403
- EO 341, *Use of Surpluses in CERF*
- EO 805, *Policy Governing the Enrollment of Non-Matriculated Students in CSU State-Supported Courses and in CSU Self-Support Special Session Courses*
- EO 806, *Certificates and Certificate Programs*
- EO 1000, *Delegation of Fiscal Authority*
- EO 1099, *Extended Education: Self-Supporting Instructional Courses and Programs*
- EO 1102, *CSU Student Fee Policy*
- Integrated California State University Administrative Manual (ICSUAM) §2001.00, *Campus Reserves*
- ICSUAM §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*
- ICSUAM §8000, *Information Security*
- Coded memorandum Human Resources 2016-08, *Background Check Policy*
- *CSU Legal and Account Reporting Manual Chapter 6 Extended Education*
- CSU Auxiliary Operating Agreement Model, Section 14, *Contracts for Campus Services*
- *CPP CEU Policy for Granting CEUs for Non-Academic Credit Programs*
- *CPP CEU Program Development: Program Launch Cycle*

AUDIT TEAM

Audit Manager: Ann Hough
Senior Auditor: Mayra Villalta