

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

August 18, 2020

Dr. Mary A. Papazian, President
San José State University
One Washington Square
San José, CA 95192

Dear Dr. Papazian:

Subject: Audit Report 20-02, Professional and Continuing Education, San José State University

We have completed an audit of *Professional and Continuing Education* as part of our 2020 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,



Vlad Marinescu
Interim Chief Audit Officer

c: Timothy P. White, Chancellor

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PROFESSIONAL AND CONTINUING EDUCATION

San José State University

Audit Report 20-02
June 25, 2020

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 March 6, 2020, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we noted that San José State University (SJSU) had an appropriate framework for the administration of its PACE programs. However, we identified issues that indicated that some attention is needed to ensure that PACE operational, administrative, and financial operations are in full compliance with existing policies and guidelines. Specifically, we found that PACE fund expenditures were not always properly documented to show a clear and appropriate connection between the expenditure and the overall support and development of self-support programs. In addition, the campus had not developed a quantifiable model to justify that PACE funds pledged to a campus construction project were consistent with restrictions on the proceeds from self-support activities. Also, guidelines on allocating shared costs to PACE funds were not made available to all divisions of SJSU that received PACE revenues. Furthermore, user access controls related to an IT system needed improvement. Additionally, the campus president did not consistently notify the Campus Fee Advisory Committee (CFAC) regarding decisions on Category V extended education fees.

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 always properly documented to show a clear and appropriate connection between the expenditure and the overall support and development of self-support programs.

We reviewed 31 expenditures made within the Academic Affairs Division and the Division of Student Affairs, and we found that:

- Five of the expenditures did not include documentation showing a clear and appropriate connection between the expenditures and a self-supporting program.
- One travel expenditure was miscoded with the incorrect destination.
- One salary-related transaction was miscoded with an inaccurate class description.

Complete and accurate documentation of PACE expenditures decreases the risk of inappropriate use of PACE funds and helps to ensure compliance with the California Education Code and campus guidelines.

RECOMMENDATION

We recommend that the campus:

- a. Improve its enforcement of the requirement to maintain documentation demonstrating a clear and appropriate connection between PACE expenditures and self-supporting programs that benefit from the expenditures, and ensure the standards are communicated to appropriate employees.
- b. Develop a more effective process for reviewing expenditure activities in PACE funds to ensure proper coding for transactions.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Improve enforcement of the requirement to maintain documentation demonstrating a clear and appropriate connection between PACE expenditures and self-supporting programs that benefit from the expenditures, and ensure the standards are communicated to appropriate employees.
- b. Develop a more effective process for reviewing expenditure activities in PACE funds to ensure proper coding for transactions.

This will be completed by February 26, 2021.

2. PACE FUND ALLOCATIONS

OBSERVATION

The campus had not developed a quantifiable model to justify that PACE funds pledged to a campus construction project were consistent with restrictions on the proceeds from self-support activities.

Education Code (EC) §89704 states that all revenues from self-support instructional programs shall be deposited in a separate trust account, and that proceeds from that account are appropriated for the support and development of self-support programs. When the campus proposal for the funding of the Interdisciplinary Science Building (ISB) included a contribution from the College of Professional and Global Education (CPGE), this contribution was justified by the expectation that the college would receive space in at least one floor of the new structure.

A written agreement was drawn up in July 2018 by administration and finance outlining some of the expectations and consideration for the contribution, then expected to be \$14 million. However, it was not executed. The CPGE 2019-20 Business Plan, which referenced the agreement, outlined the expected contributions from CPGE revenues, but did not provide an apportionment of costs for receipt of those benefits against the total cost of the construction, or of the expected share of projected costs for furniture, equipment, and technology. Absent a percentage or other measurement assigned to CPGE, it is also not clear what future contributions will be made by CPGE if the project has cost overruns. Our discussions with CPGE management indicated that the campus has already suggested that the campus will seek more than the initial agreed-upon \$14 million contribution from CPGE.

A written and quantifiable model to support PACE expenditures for a project decreases the risk of inappropriate use of PACE funds and helps to ensure compliance with the California Education Code and campus guidelines.

RECOMMENDATION

We recommend that the campus create a reasonable and equitable agreement that details the obligations of each party as it relates to PACE fund contributions to the construction of the ISB.

MANAGEMENT RESPONSE

We concur. The campus will institute an equitable agreement that details the obligations of each party as it relates to PACE fund contributions to the construction of the ISB.

This will be completed by February 26, 2021.

3. PACE FUND SPENDING GUIDELINES

OBSERVATION

Guidelines on allocating shared costs to PACE funds were not made available to all divisions of SJSU that receive PACE revenues.

We found that only the Academic Affairs Division had guidelines available for its staff describing the process of assigning indirect costs to self-supported instructional courses and programs according to a methodology that represents a reasonable and equitable distribution.

Easily accessible guidelines, policies, or procedures regarding proper use of PACE funds can help all areas of the campus stay in compliance with chancellor's office and state orders and codes.

RECOMMENDATION

We recommend that the campus provide easily accessible guidance on properly assigning costs to PACE funds to all areas of the campus that receive PACE revenues.

MANAGEMENT RESPONSE

We concur. The campus will provide easily accessible guidance on properly assigning costs to PACE funds to all areas of the campus that receive PACE revenues.

This will be completed by February 26, 2021.

4. INFORMATION SYSTEM ACCESS

OBSERVATION

User access controls over the Terra Dotta study-abroad management system needed improvement.

Access to Terra Dotta was managed by CPGE, as it was specific to CPGE and not used by other colleges or departments on campus. Student information was loaded and accessible in Terra Dotta.

We reviewed a list of 14 current users for the system and found that one, a former student assistant, was no longer an active employee with CPGE.

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

RECOMMENDATION

We recommend that the campus, in conjunction with CPGE, better enforce its procedures for removing systems access to departing employees and perform routine reviews of access rights.

MANAGEMENT RESPONSE

We concur. The campus and CPGE will enforce the procedures for removing systems access to departing employees and perform routine reviews of access rights.

This will be completed by February 26, 2021.

5. CAMPUS FEE ADVISORY COMMITTEE NOTIFICATION

OBSERVATION

The campus president did not consistently notify the CFAC regarding decisions on Category V extended education fees.

Executive Order 1102, *California State University Student Fee Policy*, delegates authority to the campus president for the establishment, oversight, and adjustment of Category V fees, but also outlines an oversight process that includes notification to the CFAC.

Clear communication between the campus president and the CFAC ensure that all stakeholders in the fee approval process are properly notified when there are changes to Category V fees.

RECOMMENDATION

We recommend that the campus establish a process to notify the CFAC whenever the president establishes or adjusts Category V fees.

MANAGEMENT RESPONSE

We concur. The campus will establish a process to notify the CFAC whenever the president establishes or adjusts Category V fees.

This will be completed by February 26, 2021.

GENERAL INFORMATION

BACKGROUND

In 1971, the California legislature passed the Continuing Education Revenue Fund (CERF) Act, which required each California State University (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 EE 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 SJSU, the primary coordination of self-support programs resides in the CPGE. CPGE provides support to academic colleges with the development of professional education and degree programs and serves as the central area for reporting enrollment and financial statistics. 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; and degree and certificate courses. Some programs are offered online, while others require in-person attendance.

SCOPE

We visited the SJSU campus from January 27, 2020, through March 6, 2020. 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 January 1, 2018, through March 6, 2020.

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.

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; Trustee policy; Office of the Chancellor directives; and campus (and auxiliary, if applicable) procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. 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:

- 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 1080, *International Agreements*
- EO 1099, *Extended Education: Self-Supporting Instructional Courses and Programs*
- EO 1102, *CSU 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*
- Education Code (EC) §89704, *Fees, Rents and Charges*
- EC §89720 to §89726, *Revenues*
- Government Code §13402 and §13403
- Policies and Procedures for SJSU Providing Continuing Education Units
- SJSU Academic Affairs Division *CERF Guidelines*
- *SJSU Campus Reserves Policy*
- *SJSU International and Extended Studies Funding Model Adjustment*
- *SJSU New Degree Program Procedures*
- *SJSU S16-17 University Policy, Academic Certificate Programs: Review and Approval Process*
- *SJSU Special Session Program Development Process*

AUDIT TEAM

Senior Audit Manager: Ann Hough
Senior Auditor: Allen Tung