

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

October 6, 2020

Dr. Joseph I. Castro, President
California State University, Fresno
5241 N. Maple Avenue
Fresno, CA 93740

Dear Dr. Castro:

**Subject: Audit Report 20-19, Professional and Continuing Education,
California State University, Fresno**

We have completed an audit of *Professional and Continuing Education* as part of our 2020-21 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
Adam Day, Chair, Committee on Audit
Jane W. Carney, Vice Chair, Committee on Audit

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PROFESSIONAL AND CONTINUING EDUCATION

California State University, Fresno

Audit Report 20-19
September 11, 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 ensure compliance with relevant federal and state regulations; Trustee policy; Office of the Chancellor (CO) 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 July 15, 2020, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we noted that the campus Continuing and Global Education (CGE) division had an appropriate framework for the administration of its PACE programs; however, we identified some areas needing improvement. Specifically, we noted that some PACE-related expenditures made by campus partners were not properly documented to show a clear and appropriate connection for the overall support and development of self-supporting instructional programs, and documentation of approvals could be improved. In addition, the campus did not always comply with conditions for enrollment of non-matriculated students in state-supported courses, and a state trust fund approval form was not completed for a PACE-related activity.

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 adequately supported, and documented approval of expenditures needed improvement.

Based on auditor judgment, we selected and reviewed 40 PACE fund expenditures made by the CGE and campus partners during fiscal years 2018/19 and 2019/20, including 32 campus partner expenditures totaling \$162,868. We found that the campus partners' expenditures were not always supported with sufficient explanations that adequately connected the expense to the support and development of self-supporting instructional programs, and documented approval of campus partners' expenditures needed improvement, as campus partner approvals on some documents either could not be located, or signatures were illegible. Upon follow-up with CGE during audit fieldwork, we determined that the nature of the expenditures appeared appropriate.

Complete documentation and proper approval of PACE expenditures decreases the risk of inappropriate use of PACE funds and ensures compliance with state and CO requirements.

RECOMMENDATION

We recommend that the campus:

- a. Improve the process for documenting explanations for PACE expenditures so that they adequately connect the expense to the support and development of self-supporting instructional programs and communicate this new process to appropriate employees.
- b. Clearly document the approving signatures on supporting documentation.

MANAGEMENT RESPONSE

We concur.

- a. The campus, in conjunction with CGE, will remind deans, associate deans and college budget managers of the process for identifying and documenting allowable campus partner PACE expenditures by November 30, 2020, and annually thereafter. In addition, the campus, in conjunction with accounting services, will review the previous quarter's campus partner fund expenditures by November 30, 2020, and quarterly thereafter.
- b. CGE, in conjunction with accounting services, will jointly create and implement a form for campus partners to document approver signature names and provide explanations that adequately connect campus partner PACE expenses to allowable expenditures that support and develop self-support instructional programs by November 30, 2020.

2. OPEN UNIVERSITY ENROLLMENT

OBSERVATION

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

For academic years 2018/19 and 2019/20, we compared the number of non-matriculated student enrollees to the total enrollment in each open university (OU) course. OU or open enrollment allows non-matriculated individuals paying self-supporting fees to enroll in state-supported course offerings on a space-available basis, but only after the campus has taken reasonable steps to provide eligible state-supported matriculated students the opportunity to enroll.

We reviewed 15 OU courses, and we found that:

- For one course offered by the Jordan College of Agricultural Sciences and Technology (JCAST) during the fall 2019, spring 2019, and fall 2018 semesters, 15 non-matriculated students made up the entire enrollment for each semester.
- For one course offered by the College of Health and Human Services during fall 2019, nine non-matriculated students made up 90 percent of the enrollment.

Also, we were not provided an explanation for one course offered by JCAST during fall 2019 in which only one non-matriculated student made up the entire enrollment.

Compliance with conditions for allowing non-matriculated students into state-supported courses decreases campus exposure to questions about whether state funding is being used properly.

RECOMMENDATION

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

MANAGEMENT RESPONSE

We concur. CGE will consult with the Jordan College of Agricultural Sciences and Technologies, as well as the College of Health and Human Services, to ensure compliance with conditions for enrollment of non-matriculated students in state-supported courses by November 30, 2020. In addition, CGE will notify all deans, associate deans and department chairs of appropriate Open University use by November 30, 2020, and annually thereafter.

3. TRUST FUND APPROVAL

OBSERVATION

A trust fund approval form had yet to be established by the Craig School of Business for a \$2.1 million trust fund designated for PACE-related activities; specifically, for classroom renovations.

A trust fund approval form documents the source of funding, the purpose of the fund, the name of the person authorized to expend the funds, and any other requirements that govern its usage and disposition. We found that no expenditures had occurred at the time of the audit; however, the college had transferred the money from its general continuing education revenue fund to the trust fund.

A completed trust fund approval form decreases the risk of inappropriate use of PACE funds and helps to ensure compliance with the CO and campus guidelines.

RECOMMENDATION

We recommend that the campus complete a trust fund approval form for the above-mentioned PACE-related activity.

MANAGEMENT RESPONSE

We concur. The campus will complete the trust fund approval form for the Craig School of Business trust fund for PACE-related activities by November 30, 2020.

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 extended education 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 University, Fresno (Fresno State), CGE provides educational opportunities to a wide array of audiences that would not be otherwise served by the university. CGE offers bachelor's and master's degrees, certificates, continuing education, professional development courses, personal enrichment classes, and global programs. Courses are available online, during the summer and winter sessions, at various locations, and through several programs such as the Osher Lifelong Learning Institute, the American English Institute, and the Veterans Education Program. In addition, CGE oversees Fresno State's Open University Program, which allows individuals who are not matriculated students of the university to enroll in college courses after regularly enrolled students have registered, when there is still space available in the class. CGE is under the direction of the dean for CGE and the provost and vice president for Academic Affairs.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from June 8, 2020, through July 15, 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 July 15, 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.
- 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 operational, administrative, and financial controls, included interviews and limited testing of certain aspects of the PACE program. The audit did not include PACE program site visits or validation of the risk assessment information provided by staff in the course of the internal process. 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 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:

- 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 Fee Policy*
- Integrated California State University Administrative Manual (ICSUAM) §2001.00, *Campus Reserves*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs Policy*
- 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*
- Fresno State Faculty & Chairs Self-Support Program Guide
- Fresno State Trust Funds

AUDIT TEAM

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