



California State University's Extended Education

It Is Unclear Whether Supplanting Occurred, and
Campuses Did Not Always Document Their Adherence
to Laws, Policies, and Procedures

Report 2012-113

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December 10, 2013

2012-113

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor (state auditor) presents this audit report concerning extended education at the California State University (CSU). Extended education courses and programs are self-supported and are typically paid for by students or third parties, such as employers. We examined extended education at the CSU's Office of the Chancellor (Chancellor's Office) and three of the 23 campuses: CSU Long Beach, CSU Sacramento, and San José State University (San José State). This report concludes that although state law and executive orders issued by the Chancellor's Office prohibit campuses from supplanting state-supported courses with self-supported courses during the regular academic year, they do not define the word supplant. It is not clear whether the state law and executive orders intended to prohibit a campus from replacing all state-supported sections of a course that it would normally offer during the regular academic year with self-supported versions of the same course, or whether replacing some of the sections of that course with self-supported versions would also violate the prohibition. Using a narrower definition, we identified 26 courses where potential supplanting may have occurred. Using a broader definition, we identified 914 instances when the number of state-supported sections of a course declined and the number of self-supported sections for the same course increased from one year to the next.

Contrary to the CSU student fee policy, the three campuses did not always prepare statements of revenues and expenditures when setting fees for extended education programs. Also, two of the three campuses raised student fees using unjustified methodologies. Further, the Chancellor's Office can improve its oversight of extended education fees by reviewing each campus's inventory of fees to determine their appropriateness. Until it does so, the Chancellor's Office cannot identify extended education fees that may be more than adequate to cover the costs of courses and programs. Finally, campuses need to improve their oversight of extended education expenditures. Because of insufficient documentation, we were unable to conclude that 10 of the 41 extended education transactions we tested were reasonable, allowable, or related to the support and development of extended education instructional programs.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

The California State University (CSU) is a system of 23 campuses located throughout California. The State appropriates money in the annual budget from the State’s General Fund to the CSU to provide higher education. CSU in turn allocates that money to the campuses to provide state-supported courses and programs, which make up the majority of courses and programs CSU offers. In addition, CSU campuses offer extended education courses and programs that must be self-supported; students or third parties, such as employers, typically pay for these courses and programs.¹ Although CSU does not have an explicit definition of *extended education*,² according to a 2002 executive order issued by the CSU’s Office of the Chancellor (Chancellor’s Office), extended education programs include all self-supported instructional programs designed and used to provide increased access to the educational resources of the system and to otherwise facilitate use of those resources. Examples of extended education include off-campus instruction, distance education, programs offered on irregular calendars or schedules, multi-campus and regional programs, international education, and other programs designed to serve students in both state-supported and self-supported programs on and off campus.

State law establishes the Board of Trustees of the CSU (board), which governs the CSU system and is responsible for managing, administering, and controlling the campuses. In addition, the board delegates certain responsibilities to the chancellor, who is the chief executive officer of the CSU, and to the campus presidents, who are the chief executive officers of their campuses. Our audit focuses on for-credit extended education within the CSU, specifically governance by the board, the chancellor, and the campus presidents at CSU Long Beach, CSU Sacramento, and San José State University (San José State).

The California Education Code and executive orders issued by the chancellor prohibit CSU campuses from “supplanting” state-supported courses offered during the regular academic year with self-supported courses. One apparent purpose of this prohibition is to ensure that CSU campuses do not reclassify state-supported courses as self-supported courses to increase the

¹ CSU uses several different terms when referring to extended education, including *continuing education*, *special session*, and *self-support* or *self-supported courses and programs*. We use the term *self-supported* for this report, unless another term was specifically cited in state law or CSU policy.

² In February 2013 the Chancellor’s Office stated it was drafting an executive order that would define *extended education*. However, as of December 10, 2013, it had not issued that executive order.

Audit Highlights . . .

Our review of extended education programs highlighted the following:

- » *State law and the California State University’s (CSU) Office of the Chancellor (Chancellor’s Office) policy do not define the word supplant, and the term can be interpreted in more than one way.*
- » *Although we observed that the three reviewed campuses provided a total of 26 courses where potential supplanting may have occurred, we could not be certain whether these campuses supplanted state-supported courses with self-supported courses.*
- » *Contrary to the CSU student fee policy, the three campuses we examined did not always prepare statements of revenues and expenditures when setting fees for extended education programs.*
 - *Two of the three campuses raised fees using unjustified methodologies.*
 - *The Chancellor’s Office does not review each campus’s inventory of fees to determine the appropriateness of extended education fees.*
- » *Extended education revenues generally exceeded extended education expenditures during fiscal years 2007–08 through 2011–12 for the three campuses we reviewed.*
 - *Two campuses violated the Chancellor’s Office’s carry-forward fund policy when their reserve balances exceeded six months of their annual operating expenditures.*

continued on next page . . .

- » *We could not determine if 10 of the 41 extended education transactions we tested were reasonable, allowable, or related to the support and development of extended education instructional programs primarily because the campuses lacked sufficient documentation.*
- » *Neither CSU Long Beach nor CSU Sacramento notified the Chancellor's Office as required before each converted a state-supported degree program to a self-supported program.*

fees they charge to students. However, state law and Chancellor's Office policy do not define the word *supplant*, and the term can be interpreted in more than one way. To supplant technically means "to replace"; however, that raises the question of how many courses need to be replaced for it to be considered supplanting. It is important to note that for the purposes of this audit report, we considered whether any supplanting at all occurred and the extent to which it occurred.

To determine whether any supplanting occurred, we considered two interpretations of the term—a narrower interpretation based on CSU's position in a lawsuit, as well as a broader, "plain meaning" interpretation. In a 2010 lawsuit, CSU took the position that as long as a campus had not completely replaced a state-supported course offering that was necessary to achieve a CSU degree with a self-supported course, it had not violated the prohibition. CSU stated that, in other words, a campus could not require students to enroll in a self-supported course as the only path to their degree.

A "plain meaning" interpretation also exists. According to our legal counsel, when state law does not define a statutory term, the ordinary, plain meaning of a word is considered first in determining the Legislature's intent. Although the ordinary, plain meaning of *supplant* is "to replace," it is not clear whether the Legislature intended to prohibit a CSU campus from replacing all state-supported sections of a course that it would normally offer during the regular academic year with self-supported versions of the same course, or whether replacing some of the sections of that course with self-supported versions would also violate the prohibition.

We analyzed the campuses' course data for fiscal years 2007–08 through 2011–12 using both CSU's narrower definition and the broader, plain meaning definition. Regardless of the interpretation we used, we identified potential instances of supplanting. Using the narrower definition, we observed that the three reviewed campuses provided a total of 26 courses where potential supplanting may have occurred. In these instances, during a fiscal year the campuses offered a course that was necessary for degree completion only as a self-supported course, not as a state-supported course. Using the broader definition, we identified a total of 914 instances at the three campuses when the number of state-supported sections of a course declined and the number of self-supported sections for the same course increased from one year to the next.

However, because of the different interpretations of the term *supplanting*, we could not be certain whether these campuses supplanted state-supported courses with self-supported courses, or the extent to which they did. We therefore cannot conclude that the three campuses violated the California Education Code.

Until the Legislature and CSU define *supplanting* and direct all CSU campuses to establish a method for tracking and evaluating the movement between state-supported and self-supported courses and course sections, any instances of supplanting will remain unclear.

We also examined the process CSU uses to set fees for self-supported courses and programs. Contrary to the CSU student fee policy, the three campuses we examined did not always prepare statements of revenues and expenditures when setting fees for extended education programs, although CSU policy requires campus presidents to consider the information on these statements before establishing or adjusting any fee. In addition, two of the three campuses we reviewed raised fees using unjustified methodologies. When campuses do not follow the CSU student fee policy, they cannot justify the fees they set and charge students for extended education courses and programs. On the other hand, we do not believe a systemwide cap for extended education fees is necessary. Although state law requires CSU to generate adequate revenues to cover the costs of extended education, it does not specify a maximum amount of fees for extended education that campuses can charge. However, CSU's student fee policy embraces one of the three policies that are the foundation of the California Master Plan for Higher Education: maintaining low fees. A systemwide fee cap is not necessary because the CSU student fee policy for extended education, if campuses follow it, appears reasonable and is consistent with state law. Finally, the Chancellor's Office can improve its oversight of extended education fees by reviewing each campus's inventory of fees to determine their appropriateness. Until it does so, the Chancellor's Office cannot identify extended education fees that may be more than adequate to cover the costs of courses and programs.

Our analysis also found that extended education revenues generally exceeded extended education expenditures during fiscal years 2007–08 through 2011–12 for the three campuses we reviewed. Consequently, each campus had increases in the year-end fund balances of its Continuing Education Revenue Fund (CERF) trust account. Two campuses violated the Chancellor's Office's carry-forward fund policy when their reserve balances exceeded six months of their annual operating expenditures. The policy requires campuses to submit spending plans to explain why they require reserve balances in excess of six months of their operating expenditures. However, the Chancellor's Office waived the requirement that campuses submit these spending plans because of uncertainties surrounding the State's budget. Yet, by waiving the requirement, the Chancellor's Office missed opportunities to ensure that campuses spent their CERF trust account fund balances appropriately. For instance, we question San José State's allocation of \$13.2 million, or 47 percent of the costs for its \$28 million campuswide instructional technology upgrade project (project) to

extended education when extended education accounts for only 14.2 percent of San José State's operating fund revenue, 7.1 percent of its overall expenditures, and 25 percent of its student body. The campus's failure to allocate the project's costs using a reasonable and equitable distribution method is contrary to cost allocation principles as described in the *State Administrative Manual* and CSU policy.

Further, campuses need to improve their oversight of extended education expenditures. We were unable to conclude that 10 of the 41 extended education transactions we tested were reasonable, allowable, or related to the support and development of extended education instructional programs, primarily because the campuses lacked sufficient documentation. For example, CSU Long Beach reimbursed the California State University Long Beach Research Foundation (foundation) for salaries, benefits, and administrative fees without a written agreement between the campus and the foundation describing the work the employees would perform for the extended education program or the amount of the administrative fee to be paid. State regulations require the chancellor and auxiliary organizations, such as the foundation, to enter into a written agreement to identify the functions the auxiliary organization will perform. In addition, San José State was unable to demonstrate that three of the 10 expenditures we reviewed, totaling roughly \$9,400, related to the purchase of lab supplies, two generators, and flooring for one of its classrooms were for the support and development of extended education instructional programs or were reasonable and allowable. CSU Long Beach and CSU Sacramento could not provide partnership agreements to support the methodology and percentages they used to allocate a portion of the extended education fees to other campus colleges and departments, which are referred to as *campus partners*, that assist in the development and administration of extended education instructional programs.

Finally, neither CSU Long Beach nor CSU Sacramento notified the Chancellor's Office as required before each converted a state-supported degree program to a self-supported program. CSU Long Beach did not notify the Chancellor's Office before converting its Master of Arts in Dance program in the summer of 2009, and CSU Sacramento did not notify the Chancellor's Office when it converted its Master of Science in Geology program in the fall of 2011. According to its assistant vice chancellor of academic programs and faculty development, the Chancellor's Office established a requirement of such notification to prevent instances of supplanting and to ensure compliance with all applicable laws and policies. Without this notification, CSU Long Beach and CSU Sacramento did not provide the Chancellor's Office the opportunity to help ensure that the campuses did not supplant their state-supported programs with extended education programs.

Recommendations

Legislature

To provide sufficient direction to the CSU Chancellor's Office and CSU campuses regarding the supplanting of state-supported courses or programs by self-supported courses or programs, the Legislature should enact clarifying statutory language during the 2014 Legislative Session regarding its intent for California Education Code, Section 89708. This clarifying language should include a definition of the term *supplant* and a description of how CSU should measure whether supplanting is occurring. The clarifying language should also require each CSU campus to take all reasonable steps to ensure that when it makes course or program offering decisions, those decisions do not force students who are attempting to earn a degree to take self-supported courses that are required as a condition of degree completion.

CSU Chancellor's Office

To help the Legislature clarify its intent regarding supplanting as identified in the California Education Code, Section 89708, the Chancellor's Office should immediately begin working with the Legislature and its staff to that end.

Until the Legislature clarifies its intent regarding California Education Code, Section 89708, the Chancellor's Office should immediately finalize its executive order pertaining to extended education. This guidance should identify appropriate oversight mechanisms for ensuring campuses' compliance with this law.

Within six months of the date the Legislature clarifies its intent regarding California Education Code, Section 89708, the Chancellor's Office should develop and issue final guidance to campuses regarding supplanting, including identifying appropriate oversight mechanisms for ensuring campuses' compliance with this law.

To effectively monitor and ensure that the campuses set fees for extended education in accordance with state law and CSU policy, the Chancellor's Office should immediately take the following actions:

- Require campus chief financial officers to develop, and presidents to consider, the statement of revenues and expenditures described in the policy before making a determination on extended education fees.

- Instruct campuses to report annually a complete inventory of their extended education fees, including past and current fee rates, the total revenue collected for each fee, and the remaining balance for revenues collected for each fee as the policy requires.
- Direct its internal audit staff to periodically conduct audits of the campuses' extended education fees to determine the appropriateness of the fees, including the methodology campuses use to set the fees and the inventory for extended education fees that they report to the Chancellor's Office.

To ensure that campuses spend their CERF trust account fund balances appropriately, the Chancellor's Office should immediately take the following actions:

- Reinstate its carry-forward fund policy and, starting with fiscal year 2012–13, require campuses to submit spending plans.
- Direct its internal audit staff to periodically review the campuses' extended education course and program expenditures.

CSU Long Beach

To strengthen its oversight of payments made from the CERF trust account, CSU Long Beach should immediately take the following actions:

- Enter into a written agreement with the foundation that specifies, among other things, the functions the foundation is to manage, operate, or administer for extended education and the necessity for the foundation's administration of the functions instead of the campus's.
- Review and document the appropriateness of the campus partners' allocation percentages using current data and, if needed, adjust the percentages.
- Develop and retain partnership agreements to support the campus partners' allocation percentages.

To help the Chancellor's Office enforce state law that prohibits supplanting state-supported courses and programs, CSU Long Beach should immediately remind all relevant employees to notify the Chancellor's Office before converting state-supported degree programs to self-supported degree programs.

CSU Sacramento

To strengthen its oversight of payments made from the CERF trust account, CSU Sacramento should immediately do the following:

- Review and document the methodology it uses to allocate revenue to the campus partners.
- Develop and retain partnership agreements that reflect the agreed-upon terms between its College of Continuing Education and the campus partners.

To help the Chancellor's Office enforce state law that prohibits supplanting state-supported courses and programs, CSU Sacramento should immediately remind all relevant employees to notify the Chancellor's Office before converting state-supported degree programs to self-supported degree programs.

San José State

To ensure that its CERF trust account bears a reasonable portion of the costs for its campuswide instructional technology upgrade project, San José State should immediately determine the proportionate share of the project cost each stakeholder, including extended education, should bear and, if necessary, transfer funds back to the CERF trust account.

To strengthen its oversight of payments made from the CERF trust account, San José State should ensure that it retains documentation to demonstrate that payments are for the support and development of CSU self-supported instructional courses and programs and that they are reasonable and allowable.

Agency Comments

Although the Chancellor's Office and the three campuses concurred with our recommendations, their responses did not always identify plans for implementing them. The California State Auditor's Office will monitor the Chancellor's Office's and campuses' implementation of their respective recommendations.

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Introduction

Background

The California State University (CSU) is a system of 23 campuses located throughout California. The State appropriates money in the annual budget from the State's General Fund to the CSU to provide higher education. CSU in turn allocates that money to the campuses to provide state-supported courses and programs, which make up the majority of courses and programs CSU offers. CSU campuses also offer students extended education courses and programs that must be "self-supported"; these courses and programs are typically paid for directly by students or by third parties, such as employers.³ State law requires that revenues, including fees, received from extension programs, special session, and other self-supported instructional programs be deposited in the State University Continuing Education Revenue Fund (CERF) or the CSU Trust Fund.

The Donahoe Higher Education Act of 1960 established the Board of Trustees of the California State Colleges, which later became the Board of Trustees of the CSU (board). The board has 25 members, including elected officials, faculty, students, alumni, and gubernatorial appointees. State law gives the board the authority to adopt rules and regulations regarding, among other things, the CSU. The board governs the CSU system and is responsible for the management, administration, and control of the campuses. Specifically, the board develops broad administrative policies; provides broad direction and coordination for curricular development; oversees the management of funds, property, facilities, and investments; and appoints the chancellor, vice chancellors, and campus presidents.

In addition, as shown in the text box, through standing orders adopted in March 2006, the board delegates certain responsibilities to the chancellor, who is the chief executive officer of the CSU, and to campus presidents, who are the chief executive officers of their campuses. The board's standing

Certain Responsibilities Within the California State University

Through standing orders, the Board of Trustees (board) of the California State University (CSU) delegates certain responsibilities to the chancellor, including the following:

- **Student fees:** The establishment and oversight of campus fees and the establishment, adjustment, and oversight of systemwide fees.
- **Curricula and student enrollment:** The establishment and oversight of all academic programs.
- **Faculty credentials and salaries:** The appointment of personnel, the development and enforcement of personnel programs, and the discipline and termination of personnel.

Also through standing orders, the board delegates certain responsibilities to campus presidents, including the following:

- **Student fees:** The oversight and adjustment of campus fees in accordance with applicable policy.
- **Student enrollment:** The oversight of student affairs.
- **Faculty credentials and salaries:** The appointment of academic and administrative staff.
- **Curricula:** The development of curricular and instructional plans.

Source: Standing Orders of the Board of Trustees of the CSU, adopted on March 15, 2006.

³ CSU uses several different terms when referring to extended education, including *continuing education*, *special session*, and *self-support* or *self-supported courses and programs*. We use the term *self-supported* for this report, unless another term was specifically cited in state law or CSU policy.

orders allow the chancellor to delegate his or her authority to others within CSU using executive orders. Further, these orders allow campus presidents to delegate their authority to other officials on their respective campuses. Our audit included examining student fees, student enrollment, course curricula, faculty salaries, and faculty credentials for CSU extended education programs. In Table A beginning on page 79, we identify the state laws, state regulations, executive orders, and collective bargaining unit agreements that we considered relevant to our examination of these categories.

Defining Extended Education Within CSU

CSU does not have an explicit definition of *extended education*.⁴ It has, however, described the nature of self-supported programs. According to a 2002 executive order from the CSU's Office of the Chancellor (Chancellor's Office):

[E]xtended education programs include all instructional programs designed and utilized to provide increased access to the educational resources of the system and to otherwise facilitate utilization of these resources. Extended education embraces all self-support and state-supported (e.g., General Fund) instructional programs that serve the purposes specified above. Examples include off-campus instruction, distance education, programs offered on irregular calendars or schedules, multi-campus and regional programs, international education, and other programs designed to serve students in both General Fund and self-support programs on and off campus.

Our audit examined the administration of self-supported programs at three campuses: CSU Long Beach, CSU Sacramento, and San José State University (San José State). Self-supported courses on these three campuses made up a relatively small proportion of their instructional functions during fiscal years 2007–08 through 2011–12. As indicated by Table 1, the number of self-supported courses the campuses provided ranged from 11 percent to 17 percent of the number of state-supported courses, and the number of self-supported student seats ranged from only 4 percent to 8 percent of their state-supported student seats. Table B on page 82 presents this information in greater detail for each campus.

⁴ In February 2013 the Chancellor's Office stated that it was drafting an executive order that would define *extended education*. However, as of December 10, 2013, it had not issued that executive order.

Table 1
Total State-Supported and Self-Supported Courses, Sections, and Student Seats for Three California State University Campuses
Fiscal Years 2007–08 Through 2011–12

FISCAL YEARS		COURSES	SECTIONS	STUDENT SEATS*
2007–08	State-supported	10,287	39,803	919,449
	Self-supported	1,092	2,085	33,573
	Self-supported as a percent of state-supported	10.6%	5.2%	3.7%
2008–09	State-supported	10,252	39,179	938,791
	Self-supported	1,099	2,173	35,469
	Self-supported as a percent of state-supported	10.7%	5.5%	3.8%
2009–10	State-supported	9,971	36,461	866,989
	Self-supported	1,134	2,326	38,922
	Self-supported as a percent of state-supported	11.4%	6.4%	4.5%
2010–11	State-supported	9,812	34,767	821,096
	Self-supported	1,699	3,366	62,799
	Self-supported as a percent of state-supported	17.3%	9.7%	7.6%
2011–12	State-supported	9,777	35,850	862,360
	Self-supported	1,650	3,218	58,708
	Self-supported as a percent of state-supported	16.9%	9.0%	6.8%

Sources: California State Auditor’s (state auditor) analysis of data obtained from the California State University’s (CSU) Common Management System. Please refer to the Introduction’s Scope and Methodology for the state auditor’s assessment of the reliability of this data.

Note: We included summer session as the first term of a fiscal year and spring semester as the last term. The approach mirrors the definition of *college year* found in CSU’s *Statistical Abstract to July 2010*, the latest edition.

* The “student seats” figures presented on this table count each student once for every course in which they received a mark, such as a letter grade, a withdrawal, or an incomplete. Therefore, one student would account for five student seats if that student received a mark in five courses during a fiscal year.

Based on our observations of these three campuses, for the purposes of our audit, we divided self-supported courses and programs into three categories:

- Self-supported courses and programs that have comparable state-supported courses and programs. Included in this category are self-supported courses and programs, the majority of which are offered during summer sessions and winter intersessions, that are also typically offered as state-supported courses during the traditional fall and spring terms. Students taking self-supported courses in this category receive academic credit toward a degree. For example, we included in this category a Political Science 100: Introduction to American Government course that a campus provided as a self-supported course during a winter intersession and as a state-supported course during the fall and spring terms.

- Self-supported courses and programs that do not have comparable state-supported courses and programs. Included in this category are courses and programs that campuses offer only as self-supported. Students taking self-supported courses and programs in this category can also receive academic credit toward a degree. We observed that most of the programs in this category were associated with master's degree programs the campuses provided, such as the Master of Science in Taxation program provided by San José State.
- Noncredit self-supported courses and programs. CSU campuses offer courses and programs that provide continuing professional education and education for personal improvement. Students taking noncredit self-supported courses and programs do not receive academic credit toward a degree. However, they can earn nonacademic credit toward a certificate, such as CSU Sacramento's Contract Management Certificate Program. We excluded information related to noncredit self-supported courses and programs from our audit.

Each campus we examined has a college in charge of self-supported educational programs.⁵ Although these colleges administer self-supported educational programs on their respective campus, academic departments on each campus provide faculty to teach the for-credit self-supported courses and programs. Each campus has a dean who leads the campus's self-supported education college.

In addition to the general governance the board and the Chancellor's Office provide, within the Division of Academic Affairs in the Chancellor's Office, the state university dean of extended education (dean of extended education) performs numerous functions, such as monitoring the campuses' CERF trust accounts; assisting campuses in developing academic programs that comply with CSU policy, board policy, and California laws and regulations; and advocating for the interests of self-supported education in systemwide policy development and strategic planning.

The board also established the Commission on the Extended University (commission) to facilitate, promote, and encourage extended education courses and programs within CSU. The commission is comprised of members of the Chancellor's Office and campus officials. Each year the commission awards roughly \$400,000 to proposed programs. For example, in fiscal year 2011–12, the commission awarded \$80,000 to CSU Long Beach

⁵ The names of the colleges in charge of self-supported education differ depending on the campus: CSU Long Beach—College of Continuing and Professional Education; CSU Sacramento—College of Continuing Education; San José State—College of International and Extended Studies.

for its Strategic Language and Culture Certificate program. The commission also serves as an advisory group to the chancellor and provides recommendations on extended education program, budgetary, and policy issues.

Extended Education Students

Students taking self-supported courses differ in several respects from students in state-supported courses. Our analysis of student demographics for fiscal year 2011–12 at the three CSU campuses we reviewed found that most students enrolled exclusively in self-supported courses were graduate students over age 25, while most students enrolled exclusively in state-supported courses were undergraduates under age 25. This is consistent with the idea that campuses generally gear self-supported programs toward adult professionals by providing graduate degrees or certificate programs, alternative delivery methods (e.g., online courses), and alternative scheduling (e.g., evenings and weekends). We also found that more than half of students enrolled exclusively in self-supported and state-supported courses were female; according to campus officials, the enrollment of women in higher education has seen an upward trend for several decades. When considering adjusted gross income, we did not observe a large difference between students in self-supported and state-supported courses. In both instances, more than 60 percent of students reported earning less than \$50,000 per year. The campuses attribute this to difficult economic times and displaced workers, causing more students to be eligible to receive financial aid. (See Table 2 on the following pages for details.)

Finally, the number of students who were eligible under California's Dream Act of 2011 (act) was relatively low for all three campuses, numbering no more than 477 at CSU Long Beach. This likely was attributable to the relatively recent enactment of the act's provisions. Effective January 1, 2012, the act authorized undocumented students who meet certain criteria to apply for and receive nonstate-funded scholarships for public colleges and universities. Furthermore, a companion measure to the act, effective January 1, 2013, authorized undocumented students to apply for and receive state-funded financial aid, such as institutional grants, community college fee waivers, and Cal Grant and Chafee Grant funding.

Table 2
Demographics for Students Enrolled in State-Supported and Self-Supported Courses
Fiscal Year 2011–12

CATEGORY	CALIFORNIA STATE UNIVERSITY (CSU) LONG BEACH			CSU SACRAMENTO			SAN JOSE STATE UNIVERSITY		
	STATE-SUPPORTED STUDENT	SELF-SUPPORTED STUDENT	BOTH	STATE-SUPPORTED STUDENT	SELF-SUPPORTED STUDENT	BOTH	STATE-SUPPORTED STUDENT	SELF-SUPPORTED STUDENT	BOTH
	22,253	1,171	4,979	19,028	386	1,934	18,959	674	3,479
	72.1%	36.7%	65.4%	68.6%	16.3%	57.8%	65.9%	16.3%	64.0%
	8,619	2,014	2,633	8,729	1,980	1,414	9,807	3,464	1,958
	27.9%	63.2%	34.6%	31.4%	83.5%	42.2%	34.1%	83.6%	36.0%
Not stated	0	2	0	0	4	0	4	5	1
Column totals	30,872	3,187	7,612	27,757	2,370	3,348	28,770	4,143	5,438
	28,403	21,348	33,475	19,472	19,472	33,475	20,542	20,542	38,351
	68.2%	63.8%	58.2%	57.7%	61.5%	59.7%	51.4%	66.6%	55.1%
	13,213	1,195	2,823	11,737	875	1,348	13,947	1,368	2,441
	42.8%	37.5%	37.1%	42.3%	36.9%	40.3%	48.5%	33.0%	44.9%
Not stated	157	349	13	6	37	0	39	14	0
	0.5%	11.0%	0.2%	0.0%	1.6%	0.0%	0.1%	0.3%	0.0%
Column totals	30,872	3,187	7,612	27,757	2,370	3,348	28,770	4,143	5,438
Receiving Financial Aid†									
No	10,758	2,273	2,819	8,684	1,766	1,335	13,431	2,729	2,822
Percent of column total	34.8%	71.3%	37.0%	31.3%	74.5%	39.9%	46.7%	65.9%	51.9%
Yes	20,114	914	4,793	19,073	604	2,013	15,339	1,414	2,616
Percent of column total	65.2%	28.7%	63.0%	68.7%	25.5%	60.1%	53.3%	34.1%	48.1%
Column totals	30,872	3,187	7,612	27,757	2,370	3,348	28,770	4,143	5,438
	15,850	11,785	11,785	11,785	11,785	11,785	18,982	18,982	18,982
Percent of column total	51.4%	36.7%	15.4%	42.5%	50.1%	35.2%	64.7%	45.1%	55.2%
Yes	2,616	2,089	2,089	2,089	2,089	2,089	2,616	2,616	2,616
Percent of column total	8.5%	65.7%	27.5%	7.5%	88.5%	62.4%	9.1%	63.4%	47.9%
Column totals	3,187	3,187	3,187	3,187	3,187	3,187	3,187	3,187	3,187
	114	147	147	128	6	13	59	26	9
Percent of column total	3.5%	4.3%	1.9%	0.5%	0.3%	0.4%	0.2%	0.6%	0.2%
Asian	7,095	687	2,278	5,317	242	664	10,237	929	2,089
Percent of column total	23.0%	21.6%	29.9%	19.2%	10.2%	19.8%	35.6%	22.4%	38.4%
Black/African American	1,425	132	301	1,853	99	126	1,121	117	213
Percent of column total	4.6%	4.1%	4.0%	6.7%	4.2%	3.8%	3.9%	2.8%	3.9%
Hispanic/Latino	10,386	513	2,142	5,963	261	519	6,365	468	872
Percent of column total	33.6%	16.1%	28.1%	21.5%	11.0%	15.5%	22.1%	11.3%	16.0%

CATEGORY	CALIFORNIA STATE UNIVERSITY (CSU) LONG BEACH				CSU SACRAMENTO				SAN JOSÉ STATE UNIVERSITY			
	STATE-SUPPORTED STUDENT	SELF-SUPPORTED STUDENT	BOTH	CATEGORY TOTAL*	STATE-SUPPORTED STUDENT	SELF-SUPPORTED STUDENT	BOTH	CATEGORY TOTAL*	STATE-SUPPORTED STUDENT	SELF-SUPPORTED STUDENT	BOTH	CATEGORY TOTAL*
Hawaiian/Pacific Islander	104	11	20	135	217	10	27	254	132	14	40	186
Percent of column total	0.3%	0.3%	0.3%	0.3%	0.8%	0.4%	0.8%	0.8%	0.5%	0.3%	0.7%	0.5%
Decline to State	1,957	853	447	3,257	1,499	711	201	2,411	1,482	665	215	2,362
Percent of column total	6.3%	26.8%	5.9%	7.8%	5.4%	30.0%	6.0%	7.2%	5.2%	16.1%	4.0%	6.2%
Two or more races	1,198	77	239	1,514	1,543	64	185	1,792	1,425	123	236	1,784
Percent of column total	3.9%	2.4%	3.1%	3.6%	5.6%	2.7%	5.5%	5.4%	5.0%	3.0%	4.3%	4.7%
White	8,624	903	2,165	11,692	11,237	977	1,613	13,827	7,949	1,801	1,764	11,514
Percent of column total	27.9%	28.3%	28.4%	28.1%	40.5%	41.2%	48.2%	41.3%	27.6%	43.5%	32.4%	30.0%
Column totals	30,872	3,187	7,612	41,671	27,757	2,370	3,348	33,475	28,770	4,143	5,438	38,351
All Students Adjusted Gross Income[‡]												
Up to \$25,000	9,392	532	2,444	12,368	10,022	318	1,068	11,408	7,734	836	1,290	9,860
Percent of column total	41.9%	47.5%	48.5%	43.3%	46.6%	34.2%	48.4%	46.3%	42.1%	49.5%	43.5%	42.8%
\$25,001-\$50,000	4,791	256	1,061	6,108	4,370	257	435	5,062	3,692	436	551	4,679
Percent of column total	21.4%	22.9%	21.1%	21.4%	20.3%	27.7%	19.7%	20.5%	20.1%	25.8%	18.6%	20.3%
Above \$50,000	8,243	332	1,534	10,109	7,114	354	703	8,171	6,942	417	1,125	8,484
Percent of column total	36.8%	29.6%	30.4%	35.4%	33.1%	38.1%	31.9%	33.2%	37.8%	24.7%	37.9%	36.9%
Column totals	22,426	1,120	5,039	28,585	21,506	929	2,206	24,641	18,368	1,689	2,966	23,023
Education Level[‡]												
Undergraduate	19,753	403	4,211	24,367	19,603	444	1,983	22,030	16,105	223	2,621	18,949
Percent of column total	88.1%	36.0%	83.6%	85.2%	91.2%	47.8%	89.9%	89.4%	87.7%	13.2%	88.4%	82.3%
Graduate	2,673	717	828	4,218	1,903	485	223	2,611	2,263	1,466	345	4,074
Percent of column total	11.9%	64.0%	16.4%	14.8%	8.8%	52.2%	10.1%	10.6%	12.3%	86.8%	11.6%	17.7%
Column totals	22,426	1,120	5,039	28,585	21,506	929	2,206	24,641	18,368	1,689	2,966	23,023
Dream Act of 2011 (act) Eligible[†]												
Totals	433	2	42	477	166	7	17	190	272	1	15	288
Percent of category total	90.8%	0.4%	8.8%	-	87.4%	3.7%	8.9%	-	94.4%	0.3%	5.2%	-

Source: California State Auditor's analysis of the Common Management System's (CMS) unaudited student data obtained from the CSU's Office of the Chancellor. Data in this table are presented as background information only.

Notes: We included summer session as the first term of a fiscal year and spring semester as the last term. This approach mirrors the definition of college year found in CSU's Statistical Abstract to July 2010, the latest edition. In addition, some percentages do not total to 100 due to rounding.

* We counted each student who was enrolled during fiscal year 2011-12 only once for determining total enrollment, and classified students based on whether they took only state-supported courses, only self-supported courses, or they enrolled in at least one of each type of course.

† Campuses update CMS data to indicate that a student is receiving financial aid, and determine when a student is eligible under the act based on their review of student documentation. All other information is self-reported by the applicant.

‡ Information for these two categories is from the Free Application for Federal Student Aid (FAFSA) form. The total number of students for which FAFSA information is available is less than the total number of students for which enrollment data are available.

Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor (state auditor) to assess the impact that extended education programs have on matriculated students.⁶ To accomplish this task, the audit committee requested that we examine 12 specific audit objectives. Table 3 describes the audit committee's objectives and our methodology for addressing each one. The audit committee also directed the state auditor to assess the impact that the CSU's future plans for expanding extended education would have on matriculated students. The Chancellor's Office's dean of extended education stated that she is not aware of any board-approved plans for expanding extended education.

Table 3
Audit Objectives and the Methods Used to Address Them

AUDIT OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	We reviewed relevant laws, regulations, policies, and other background materials pertaining to extended education at the California State University (CSU).
2 Determine the role of the CSU Board of Trustees (board) in overseeing the extended education programs and, in particular, in setting or enforcing systemwide policies and procedures.	We interviewed officials within the CSU's Office of the Chancellor (Chancellor's Office) and reviewed documents from the CSU Web site.
3 Review CSU extended education systemwide policies and procedures with regard to student fees, student enrollment, course curriculum, and faculty credentials and salaries and determine whether these policies and procedures are consistent with applicable laws.	With the assistance of our legal counsel, we found that the extended education executive orders issued by the Chancellor's Office for student fees and enrollment, course curricula, and faculty salaries and credentials were consistent with relevant state laws. Please refer to Table A in Appendix A for a listing of the state laws, state regulations, executive orders, and collective bargaining agreements that we considered relevant during this audit.
4 With regard to student fees, determine whether there is a limit on the amount that can be charged per unit and per course for extended education classes. If there is no limit, determine the reasons. In addition, assess the following: a. The average extended education fee for each campus and determine whether such fee structures are consistent and reasonable. b. The impact a systemwide cap would have—if one does not exist—on extended education fees.	<ul style="list-style-type: none"> • We reviewed state law and CSU policies and interviewed officials at the Chancellor's Office and the three campuses we visited. • We reviewed and analyzed campus fee data for the three campuses we visited for fiscal years 2007–08 through 2011–12.* We limited our analysis to only those courses for which fees were charged on a per-unit or per-course basis. Fee data for some of those courses where fees were charged on a per-term or per-program basis were not readily available. • We reviewed the processes the three campuses used to set extended education fees for selected programs.
5 Compare laws, rules, policies, and practices for CSU state-supported programs to those for the extended education programs in areas such as student fee structure, student enrollment, course curriculum, and faculty salaries and credentials. Determine whether campuses consistently follow applicable guidelines for the extended education programs.	<ul style="list-style-type: none"> • We reviewed relevant state laws, Chancellor's Office policies, and campus policies. • We selected extended education programs developed at the three campuses during fiscal years 2007–08 through 2011–12. • We also selected students who applied to the selected programs and reviewed their applications and other supporting documentation. • We examined the campuses' compliance with the applicable guidelines. • In instances where campuses did not follow applicable guidelines, we interviewed relevant campus officials to gain their perspective. • Using the extended education programs we selected for review, we selected faculty who taught courses for those programs. Our review of the salaries for 24 faculty who instructed extended education courses found that they were paid at least the minimum amount reflected in the special session salary schedule referenced in the collective bargaining agreement entered into between the board and the California Faculty Association.

⁶ A *matriculated student* is a student who is enrolled in any term, other than extension or as an auditor without credit, who meets the admissions standards outlined in state regulations.

AUDIT OBJECTIVE	METHOD
<p>6 For the most recent five-year period, review the revenue generated by the extended education programs at a selection of campuses and determine how these revenues were used and whether such expenditures were allowable and reasonable.</p>	<ul style="list-style-type: none"> • We obtained and analyzed campus financial data for fiscal years 2007–08 through 2011–12. • From a random selection of 1,500 expenditure transactions per campus, at each campus we selected two transactions per fiscal year for a total of 30 transactions. We judgmentally selected the transactions based on dollar amount and the highest expenditure categories. Further, we judgmentally selected additional transactions for limited review if they appeared to be unique. • We examined the supporting documentation for the transactions we selected to determine whether they were allowable and reasonable. • In instances where the transactions did not appear allowable or reasonable, we interviewed the relevant campus officials to obtain their perspective.
<p>7 Determine whether the extended education programs at a selection of campuses maintain a reserve balance in either of its Continuing Education Revenue Fund (CERF) or local trust accounts and, for the past five years, identify any such reserve balances. For any high balances identified, determine the reasons for the balance.</p>	<ul style="list-style-type: none"> • We reviewed state laws, Chancellor’s Office policies, and campus policies. • We obtained and analyzed financial information from the Chancellor’s Office and interviewed officials from the Chancellor’s Office and, if applicable, the campuses.
<p>8 To the extent possible, for a maximum period of five years, determine the following for extended education courses offered systemwide and for a selection of campuses:</p> <ol style="list-style-type: none"> a. The number and type of graduate and undergraduate state-supported courses offered. b. The number and type of extended education courses offered at each campus and the associated fees for those courses. c. The total number of CSU state-supported courses that have a corresponding or equivalent course in the extended education programs, including the number of courses offered in each program and the number of students enrolled. 	<p>We obtained and analyzed course data for fiscal years 2007–08 through 2011–12.*</p> <p>We also obtained and analyzed data for extended education courses that had corresponding or equivalent state-supported courses, including the number of grades provided. We did not conduct systemwide analysis because each CSU campus has flexibility as to how they use the data, which would have required us to follow up with each campus independently. We categorize the extended education courses as undergraduate and graduate.</p> <p>We present the fee information for the three campuses in Chapter 2. We present the course and student seat information for the three campuses in Appendix B.</p>
<p>9 To the extent possible, compare the students enrolled in CSU extended education programs with those enrolled in CSU state-supported programs and assess the potential financial and demographic impact of extended education courses replacing regular courses. If feasible, determine the following:</p> <ol style="list-style-type: none"> a. The total number of students enrolled in CSU extended education and CSU state-supported programs, including those who are concurrently enrolled in both CSU state-supported programs and extended education programs. b. The number of extended education students who receive student loans and financial aid. c. The demographic makeup of the students enrolled in extended education programs, including but not limited to race, ethnicity, gender, age, income, Dream Act of 2011 eligibility, etc. 	<ul style="list-style-type: none"> • We obtained and analyzed student seat information for fiscal year 2011–12 at each campus we visited.* • We obtained and compiled student demographic information for fiscal year 2011–12. We present this information in Table 2 on pages 14 and 15 as background information only. As such, we did not make recommendations based on this data. Further, we did not use this information to assess the potential demographic impact of extended education courses replacing regular courses because we found that more than 50 percent of students taking extended education courses did not report complete demographic information. As a result, certain components of the demographic data may not accurately reflect the true demographics of this population. • We did not assess the potential financial impact of extended education courses replacing regular courses because at two of the three campuses we visited, student account information is stored at a summary level, and the amount a student was charged per course was not readily available. Instead, we elected to provide a hypothetical example to illustrate the potential financial impact to a student when enrolling in CSU state-supported courses as a full-time undergraduate student and also enrolling in self-supported courses to achieve his or her degree.
<p>10 To the extent possible, determine whether extended education courses are replacing regular state-supported courses.</p>	<ul style="list-style-type: none"> • We reviewed state laws, Chancellor’s Office policies and directives, and other relevant documents pertaining to supplanting. • We obtained and analyzed campus data for courses and sections provided during fiscal years 2007–08 through 2011–12. • We interviewed officials at the Chancellor’s Office and the three campuses we visited.

AUDIT OBJECTIVE	METHOD
11 Determine whether fees from extended education programs are used for the executive compensation of campus presidents and assess the potential for conflicts of interest in their setting or managing extended education fees.	<p>At the three campuses we reviewed, we interviewed officials and examined relevant financial records for fiscal years 2007–08 through 2011–12 related to:</p> <ul style="list-style-type: none"> • Types of compensation, including salaries, salary supplements, and other payments, such as housing and vehicle allowances. • Sources of compensation, including the campuses' operating funds within the CSU Trust Fund and, if applicable, their campus foundations. • Methods of compensation, including direct payments and indirect payments, such as those made through cost allocation plans. <p>Our audit work revealed that the three campuses compensated their presidents differently:</p> <ul style="list-style-type: none"> • CSU Long Beach used its operating fund to pay for the president's base salary. The CSU Long Beach Research Foundation paid for other expenses, such as hospitality, travel, vehicle maintenance, and housing. • CSU Sacramento used its operating fund to pay for the president's base salary and housing, vehicle, and entertainment allowances. • San José State used its operating fund to pay for the president's base salary and housing maintenance costs. The campus's Tower Foundation paid for the president's salary supplement and other expenses related to travel, entertainment, parking, and club dues. <p>We found no evidence that the three campuses used revenues from extended education fees to compensate their presidents. Consequently, there was no need for us to assess the potential for conflicts of interest in the setting or managing of extended education fees.</p>
12 Review and assess any other issues that are significant to the objectives.	<p>During the audit, we learned that CSU campuses transferred funds from their CERF trust accounts to their respective operating funds within the CSU Trust Fund in October 2012. To determine the reasons for this transfer, how the CSU calculated the transfer amounts, and the use of the funds by the campuses, we reviewed the relevant state law authorizing the transfer. We also reviewed the required reports prepared by the Chancellor's Office. Finally, we interviewed officials at the Chancellor's Office and the three campuses.</p>

Sources: California State Auditor's analysis of the Joint Legislative Audit Committee's audit request number 2012-113, planning documents, and analysis of information and documentation identified in the column titled *Method*.

* For the purposes of analyzing course and student information, we included summer session as the first term of a fiscal year and spring semester as the last term. The approach mirrors the definition of *college year* found in CSU's *Statistical Abstract to July 2010*, the latest edition. For purposes of analyzing financial information, we used the State's fiscal year of July 1 to June 30.

Assessment of Data Reliability

In performing this audit, we obtained electronic data files extracted from the CSU's Common Management System (CMS) and Common Financial System (CFS) for CSU Long Beach, CSU Sacramento, and San José State. The U.S. Government Accountability Office (GAO), whose standards we follow, requires us to assess the sufficiency and appropriateness of computer-processed information that we use to support our findings, conclusions, or recommendations.

To identify course statistics, course fees, potential instances of supplanting, and student enrollment statistics, we analyzed data from the CMS. We performed data-set verification procedures

and electronic testing of key data elements and did not identify any issues. We did not perform accuracy and completeness testing of these data because the CMS is a primarily paperless system, and thus hard-copy documentation was not available for review. Alternatively, following GAO guidelines, we could have reviewed the adequacy of selected system controls that include general and application controls. However, because it was cost prohibitive, we did not conduct these reviews. Consequently, we found the CMS data for fiscal years 2007–08 through 2011–12 to be of undetermined reliability for the purposes of this audit. Nevertheless, we present the CMS data, as it represents the best available data source of information.

In addition, we compiled fiscal year 2011–12 student demographic data from the CMS at the three campuses. We present this data as background information only, and do not make recommendations based on this data. Therefore, an assessment of data reliability was not required.

To identify fund balances, revenues, expenditures, and net transfers for the CERF, we used data from the CFS. We performed data-set verification procedures and electronic logic testing of key fields, and did not identify any issues. We did not perform accuracy and completeness testing of these data because the CFS contains summary-level data. We determined that it would not be cost effective to trace this summary-level data back to the individual transactions that support the total. Consequently, we found the CFS data for fiscal years 2007–08 through 2011–12 to be of undetermined reliability for the purposes of this audit. Nevertheless, we present the CFS data, as it represents the best available data source of information.

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Chapter 1

CALIFORNIA STATE UNIVERSITY CAMPUSES MAY HAVE REPLACED CERTAIN STATE-SUPPORTED COURSES WITH EXTENDED EDUCATION COURSES

As discussed in the Introduction, the California State University (CSU) system uses the term *state-supported* to refer to courses and programs that are funded, at least in part, by the State's General Fund. In contrast, extended education courses and programs are *self-supported*, meaning that General Fund money from the State is not used to support these courses and programs; instead, fees paid by students or third parties, such as employers, are a principal source of financial support for those programs.⁷

Since 1975 state law has prohibited self-supported courses from "supplanting" state-supported courses offered during the regular academic year. One of the apparent purposes of this prohibition is to ensure that CSU campuses do not reclassify state-supported courses as self-supported courses to increase the fees they charge to students. Unfortunately, state law does not define the term *supplant*. Although the generally understood meaning of *supplant* is "to replace," it is not clear whether the Legislature intended to prohibit a CSU campus from replacing *all* state-supported sections of a course that it would normally offer during the regular academic year with self-supported versions of the same course, or whether replacing *some* of the sections of that course with self-supported versions would also violate the prohibition.

In the absence of a clear definition in state law, since as early as 1985, CSU has adopted executive orders that primarily restate the supplanting prohibition contained in state law, and these orders do not offer any further specificity. In addition, in a 2010 lawsuit filed in the Alameda County Superior Court, students alleged that CSU violated the prohibition against supplanting when it converted state-supported courses offered during summer session and winter intersession to self-supported courses. CSU took the position that as long as it had not completely replaced a state-supported course offering necessary to achieve a CSU degree with a self-supported course, it had not violated the prohibition. CSU stated that, in other words, it could not require students to enroll in a self-supported course as the only path to their degree. The superior court found that CSU had not violated the statute.

⁷ CSU uses several different terms when referring to extended education, including *continuing education*, *special session*, and *self-support* or *self-supported courses and programs*. We use the term *self-supported* for this report, unless another term was specifically cited in state law or CSU policy.

A 2009 memo from the Office of the Chancellor (Chancellor's Office) to the CSU campus presidents stated that state-supported courses and programs shall not be moved to self-supported courses and programs, either temporarily or permanently, because of funding issues. In addition, a 2011 memo from the Chancellor's Office to the campus presidents offered further guidance to the campus presidents regarding supplanting. Under the 2011 memo, actions such as moving courses or programs from state-supported to self-supported (either temporarily or permanently); moving course sections that had been regularly scheduled during the fall, winter, or spring terms to a self-supported summer session; or adding self-supported versions of state-supported courses, only to later remove the state-supported courses, would all constitute supplanting. However, despite this additional guidance, there was still no precision as to whether supplanting occurs when *all* of the state-supported sections of a particular course have been converted to self-supported or whether supplanting occurs when a campus reduces the number of sections of a particular state-supported course and increases the number of sections of a corresponding self-supported course. Moreover, the 2011 memo was silent on whether the issue of supplanting required the course to be necessary to achieve a CSU degree.

We found 26 instances where a course that was required for degree completion and that was previously provided as a state-supported course was later provided only as a self-supported course.

When we applied the narrow interpretation that CSU gave to the prohibition in the 2010 litigation—that supplanting occurs only when *all* sections of a course necessary to achieve a CSU degree are moved from state-supported to self-supported—we found 26 courses at the three CSU campuses we examined where they had made such a replacement. In other words, during the five-year period of our testing, we found 26 instances where a course that was required for degree completion and that was previously provided as a state-supported course was later provided only as a self-supported course. Further, in applying a broader interpretation of supplanting—that it might occur when there is a reduction in the number of sections of a state-supported course provided during the regular academic year and a corresponding increase in the number of sections of the self-supported version of the course—we found more than 900 instances of such a replacement at the three campuses.

The California Education Code and the Chancellor's Executive Orders Forbid Supplanting, but They Do Not Define the Term

State-supported courses and programs are funded differently from self-supported courses and programs. For state-supported courses and programs, the State appropriates money in the annual budget from the General Fund to CSU to provide higher education. CSU in turn allocates that money to the campuses to

provide state-supported courses and programs. Conversely, sources other than the General Fund pay for self-supported courses and programs, such as fees paid by students or their employers.

Although state law and CSU policy prohibit CSU campuses from supplanting state-supported courses and programs with self-supported courses and programs, these criteria do not define the term *supplanting* and do not identify how to measure whether supplanting is occurring. California Education Code, Section 89708,⁸ enacted in 1975 prohibits self-supported special sessions from supplanting regular course offerings that are available on a state-supported basis during the regular academic year.⁹ According to documents related to the enactment of Section 89708, this prohibition arose from the Legislature's apparent concern that CSU campuses might reclassify regular session offerings as special sessions to increase charges to students if the campuses were allowed to provide special sessions year-round rather than only during summer session. (Before 1975 CSU campuses were authorized to provide extended education courses only during summer sessions.) The Legislature authorized the change to year-round self-supported course offerings to expand instructional opportunities for nontraditional California students, such as military personnel and public school teachers and administrators, and people needing in-service hours, such as nurses and engineers.

The chancellor's executive orders also prohibit supplanting. Specifically, Executive Order 1047, effective May 2010, and its predecessors, Executive Order 802, effective January 2002, and Executive Order 466, effective August 1985, state that special sessions cannot be offered at times or places that are likely to supplant offerings of the state-supported program. However, the chancellor's executive orders also did not define the term *supplanting* and did not identify how to measure whether supplanting was occurring. The assistant vice chancellor of academic programs and faculty development in the Chancellor's Office stated that the executive orders do not include a definition for the term *supplanting* because the Chancellor's Office believed the term *supplanting* meant "replacing" and that the definition was self-evident.

The chancellor's executive orders also prohibit supplanting. However, the orders did not define the term supplanting and did not identify how to measure whether supplanting was occurring.

⁸ California Education Code, Section 89708, was originally enacted as Section 23759 by Chapter 1206, Statutes of 1975, but Chapter 1010, Statutes of 1976, reorganized the California Education Code, and this section was renumbered as 89708.

⁹ State law defines *special sessions* as self-supported instructional programs conducted by CSU. The special sessions can include, but not be limited to, career enrichment and retraining programs. In addition, CSU defines *special session* as a means whereby CSU instructional programs can be provided to matriculated students on a self-supported basis at times and in locations not supported by the State's General Fund appropriations. Examples of special sessions include interim sessions between college year terms (e.g., winter intersessions or summer sessions); 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 requiring special services.

To provide guidance to campuses regarding supplanting, the Chancellor's Office issued a memo in April 2011 to campus presidents that described several actions it considered to be supplanting. These actions included moving courses or programs from state-supported to self-supported, either temporarily or permanently; moving courses that had been regularly scheduled during fall, winter, or spring terms to a self-supported summer session; and adding self-supported versions of state-supported courses, only to later remove the state-supported course offerings.

At least two interpretations of the term *supplant* exist. During a 2010 court case,¹⁰ CSU attorneys argued that CSU had historically interpreted and applied *supplant* to mean that a course supplants a regular course offering only if it is offered solely during a self-supported session and is necessary to achieve a CSU degree. The Chancellor's Office did not provide us any documentation to substantiate this interpretation, nor did it provide us any documentation showing that it had previously communicated this interpretation to the CSU campuses.

A "plain meaning" interpretation also exists. According to our legal counsel, when state law does not define a statutory term, the ordinary, plain meaning of a word is considered first in determining the Legislature's intent. Because we found no statutory, regulatory, or policy definition of *supplant*, we turned to a dictionary, which showed the definition of the word *supplant* as "replace," as in to replace one thing with another. However, the term *replace* is also ambiguous. One may interpret it to mean to replace something completely or to replace something partially. This dictionary definition is also consistent with one the Chancellor's Office is considering proposing in a draft executive order regarding self-supported extended education courses and programs. In this draft executive order, the Chancellor's Office states, "To supplant is to replace a state-supported course or program with a self-supported version." However, as of December 10, 2013, the Chancellor's Office had not issued that executive order.

To determine whether the CSU campuses we examined were supplanting, we analyzed the campuses' course data using both CSU's narrower interpretation and the broader, plain meaning interpretation. Regardless of the interpretation we used, we identified potential instances of supplanting. However, because of the different interpretations, we could not be certain whether CSU Long Beach, CSU Sacramento, and San José State University (San José State) had supplanted state-supported courses with

Regardless of the interpretation we used, we identified potential instances of supplanting.

¹⁰ *Hayden v. Board of Trustees* (Superior Court, Alameda County, 2010, No. RG10-510529).

self-supported courses or the extent to which they did. We therefore cannot conclude that the three campuses violated the California Education Code.

Under the CSU's Narrower Interpretation, We Identified 26 Potential Instances of Supplanting

Based on the interpretation of *supplant* CSU used in the 2010 court case, we examined whether each of the three campuses provided self-supported courses that were necessary for degree completion only during summer session or winter intersession during a fiscal year. We included in our analysis only those courses that university catalogs identified as being required to obtain a specific degree. Our examination covered fiscal years 2007–08 through 2011–12. As Table 4 shows, CSU Long Beach, CSU Sacramento, and San José State provided a total of 26 courses where potential supplanting may have occurred.

Table 4
Number of Instances When Campuses Provided Courses Required to Graduate Only as Self-Supported When Previously the Courses Were Provided as State-Supported Fiscal Years 2007–08 Through 2011–12

CAMPUS	FISCAL YEARS				TOTAL
	2007–08 TO 2008–09	2008–09 TO 2009–10	2009–10 TO 2010–11*	2010–11 TO 2011–12	
California State University (CSU) Long Beach	1	2	15	1	19
CSU Sacramento	0	0	2	3	5
San José State University	1	0	1	0	2
Totals	2	2	18	4	26

Sources: California State Auditor's (state auditor) analysis of data obtained from CSU's Common Management System (CMS) and from the catalogs maintained on the Web sites of the three CSU campuses. Please refer to the Introduction's Scope and Methodology for the state auditor's assessment of the reliability of the CMS data.

Notes: We included summer session as the first term of a fiscal year and spring semester as the last term. This approach mirrors the definition of *college year* found in CSU's *Statistical Abstract to July 2010*, the latest edition.

The number of instances shown in the table represents the initial conversion of the course from state-supported to self-supported. The table does not include the continuation of the self-supported course in the subsequent fiscal years.

* Campus data indicate that the majority of the increase from fiscal year 2009–10 to fiscal year 2010–11 is attributable to campuses moving their summer sessions from state-supported to self-supported beginning in 2010.

For example, in fiscal year 2008–09, CSU Long Beach provided French 314 as a required state-supported course in the spring semester. But in fiscal year 2009–10, the campus provided French 314 only as a self-supported course during the winter session, even though the campus's academic year 2009–10 university catalog showed that the course remained a degree requirement for the Bachelor of Arts in French. Furthermore, in fiscal year 2007–08, San José State provided one state-supported

section and one self-supported section of its Nursing 208 course. However, in fiscal year 2008–09, the campus provided only two self-supported sections of its Nursing 208 course during the summer session, although the course remained a requirement for the Master of Science in Nursing with a nurse educator option. At CSU Sacramento, in fiscal years 2007–08 through 2009–10, the campus provided a state-supported Physical Therapy 300 course during the summer session. In fiscal years 2010–11 and 2011–12, however, CSU Sacramento provided only self-supported Physical Therapy 300 courses during the summer session, even though the course remained a requirement for the Master of Physical Therapy.

We asked the three campuses to explain why these 26 courses did not constitute supplanting. Some responses did not address our specific concern, and none of the campuses provided documentation to support its explanation despite the ample time we gave them to do so. Two associate deans in CSU Long Beach's College of Liberal Arts stated that the French 314 course had been on the campus's schedule during the previous semesters, but it had been cancelled because of insufficient enrollment. They also stated that offering the self-supported course in the winter session allowed matriculated students, in the words of CSU Executive Order 1047, an opportunity "to accelerate achievement toward an objective, e.g., timely progress toward degree completion." Further, the associate deans stated that they do not believe the self-supported course has supplanted the state-supported course, as evidenced by the campus's repeated offerings of state-supported courses in the subsequent fiscal years 2010–11 and 2011–12.

However, we disagree with the associate deans' characterization of Executive Order 1047. Specifically, Executive Order 1047 states that special session courses shall not be offered at times or places that are likely to supplant or limit offerings of the state-supported program. A reasonable person might infer that, by offering this course as self-supported during the winter intersession only and requiring students to take it in order to achieve a CSU degree, it likely supplants or limits offerings of the state-supported program. The fact remains that there were no state-supported French 314 courses provided during fiscal year 2009–10, thus requiring students desiring to graduate that year and who had not taken the course previously to take the self-supported course. The associate deans cited other reasons for converting state-supported courses to self-supported courses, such as to accommodate graduate students who are working professionals and who typically take only six units during the fall and spring terms, by offering courses during winter and summer terms so that they can complete their degree programs in two or three years; to offer clinical courses in the summer because of the limited clinical sites available for physical therapy in the fall and spring terms; and to offer geology

CSU Long Beach provided no state-supported French 314 courses during fiscal year 2009–10, thus requiring students desiring to graduate that year and who had not taken the course previously to take the self-supported course.

students the opportunity to participate in a one-month field trip during the summer term. Although these responses appear reasonable, the associate deans have not explained why the campus provided self-supported courses that were necessary for degree completion only during summer or winter terms.

For the five courses CSU Sacramento's College of Continuing Education converted from state-supported to self-supported, the dean of the College of Continuing Education stated that Physical Therapy 300 and another physical therapy course are intensive internships that students take during the summer term. The dean also stated that two nursing courses are associated with the campus's School Nurse Credential program, which allows the campus to issue the School Nurse Services credential to registered nurses so that they can practice in a public school setting. The chair of the School of Nursing also stated that both courses are offered in the curriculum for the Master of Nursing program, but the credential program and the Master of Nursing program do not interchange students. Further, the dean stated that Public Policy Administration 293 is one of four courses in the Judicial Administration Certificate program. Our review of information on the College of Continuing Education's Web site found that because of budget cuts, the campus moved that certificate program from its Department of Public Policy and Administration in the College of Social Sciences and Interdisciplinary Studies to the College of Continuing Education. According to the department chair, a change of policy for the CSU system in summer 2009 discontinued state-supported certificate programs that are not part of a master's program, which explains the campus's conversion of the course from state-supported to self-supported.

According to the director of the Valley Foundation School of Nursing at San José State, the self-supported version of the Nursing 208 course for fiscal year 2008–09 was sponsored by a Moore Foundation Grant to accelerate the nurse educator program so that it can help meet a shortage in local nursing programs. The director also stated that all nurse educator courses occur during special sessions as part of its "blended" program,¹¹ and the core courses occur during the regular session. The director's response appears reasonable based on our review of the program description. However, in another field, San José State did not provide an explanation for its conversion of an environmental studies course from state-supported to self-supported in fiscal year 2010–11.

CSU Long Beach's associate deans have not explained why the campus provided self-supported courses that were necessary for degree completion only during summer or winter terms.

¹¹ According to the director, a blended program combines state-supported core courses and self-supported courses for the specialty track, such as nurse educator, that nursing students must take to receive their degree.

Under the Broader Interpretation, We Identified More Than 900 Potential Instances of Supplanting

We also examined the number of self-supported and state-supported courses the three campuses provided during fiscal years 2007–08 through 2011–12. Using the broader, plain meaning definition of *supplant* that we described earlier, we reviewed whether the three campuses replaced state-supported course sections with self-supported course sections. We identified 914 instances related to 856 courses where the number of state-supported sections of a course declined and the number of self-supported sections of the same course increased from one year to the next. Table 5 illustrates the number of instances we identified for each fiscal year on each campus.

Table 5
Number of Instances When State-Supported Course Sections Decreased From One Fiscal Year to the Next and Equivalent Self-Supported Courses Increased
Fiscal Years 2007–08 Through 2011–12

CAMPUS	FISCAL YEARS				TOTAL
	2007–08 TO 2008–09	2008–09 TO 2009–10	2009–10 TO 2010–11*	2010–11 TO 2011–12	
California State University (CSU) Long Beach	56	75	244	48	423
CSU Sacramento	16	31	110	30	187
San José State University	51	79	131	43	304
Totals	123	185	485	121	914

Source: California State Auditor's (state auditor) analysis of data obtained from the CSU's Common Management System. Please refer to the Introduction's Scope and Methodology for the state auditor's assessment of the reliability of the data.

Notes: We included summer session as the first term of a fiscal year and spring semester as the last term. This approach mirrors the definition of *college year* found in CSU's *Statistical Abstract to July 2010*, the latest edition.

The numbers shown in the table represent those instances when a campus reduced the number of state-supported sections from one year to the next and increased the number of self-supported sections for the same course. Because this activity may have occurred for the same course over multiple years (e.g., a campus may have reduced the number of state-supported sections from fiscal years 2007–08 to 2008–09, and then again from 2008–09 to 2009–10, while increasing the number of self-supported sections over the same periods), the numbers of instances (914) is greater than the number of courses provided (856).

* Campus data indicate that the majority of the increase from fiscal year 2009–10 to fiscal year 2010–11 is attributable to campuses moving their summer sessions from state-supported to self-supported beginning in 2010.

For example, in fiscal year 2008–09, CSU Sacramento provided five state-supported sections of its Psychology 137 course. But in fiscal year 2009–10, CSU Sacramento provided one state-supported section and two self-supported sections of that course, reducing the number of state-supported sections from five to one and increasing the number of self-supported sections from zero to two. In fiscal year 2009–10, CSU Long Beach provided 34 state-supported sections of Political Science 100 and two self-supported sections. But in fiscal year 2010–11, CSU Long Beach provided 31 state-supported sections of Political Science 100—three fewer

than the previous fiscal year—and eight self-supported sections—six more than the previous year. Similarly, San José State provided 129 state-supported sections of English 1B in fiscal year 2009–10 and zero self-supported sections. In fiscal year 2010–11, however, San José State provided 114 state-supported sections (15 fewer than the previous fiscal year) and four self-supported sections (four more than the previous year).

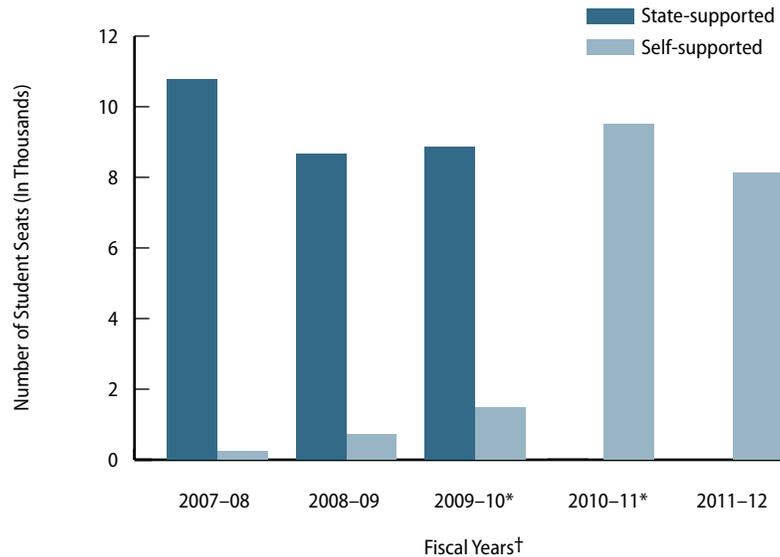
When asked why the instances we identified were not considered supplanting, the three campuses stated that the Chancellor’s Office gave them the authority to offer self-supported summer session courses. Specifically, a memo issued in December 2009 by the Chancellor’s Office to the campus presidents gave them the option in 2010 to offer self-supported summer session courses through extended education at the same time as state-supported courses in instances where it made sense for them to do so. The memo also states that self-supported summer session courses offered during 2010 for matriculated students were not mandatory and that the campuses could not charge more than the published limits of the summer 2010 state university fee schedule. According to the Chancellor’s Office, it issued the memo because CSU was experiencing extraordinary fiscal circumstances. In addition, a memo issued in February 2011 by the Chancellor’s Office to campus presidents gave them the option to offer summer session courses through extended education in 2011 for continuing students. The memo states that the campuses could charge matriculated students the full cost of the self-supported instruction and any applicable campus-based fees. The campuses reported that many of the 914 instances were the result of converting their state-supported courses to self-supported summer session courses.

For CSU Long Beach, its 423 instances were related to 398 courses. The campus stated that it opted to convert sections for 160 of its state-supported courses to self-supported summer session courses, as authorized by the Chancellor’s Office. As seen in Figure 1 on the following page, the number of self-supported student seats for the 398 courses increased by more than 8,000 from the fiscal year 2009–10 summer session to the fiscal year 2010–11 summer session.¹² In fiscal years 2010–11 and 2011–12, only 18 of the two-year total of more than 17,500 summer session student seats were for state-supported courses.

A memo issued in February 2011 by the Chancellor’s Office to campus presidents gave them the option to offer summer session courses through extended education in 2011 for continuing students.

¹² The student seat amounts count each student once for every course in which he or she received a mark, such as a letter grade, a withdrawal, or an incomplete. Therefore, one student would account for two student seats if that student received a mark in two courses during a summer session.

Figure 1
California State University, Long Beach
Aggregate Trends for Certain Summer Session Student Seats



Source: California State Auditor's (state auditor) analysis of data obtained from the California State University's (CSU) Common Management System. Please refer to the Introduction's Scope and Methodology for the state auditor's assessment of the reliability of this data.

Note: The "student seats" amounts represented here count each student once for every course in which they received a mark, such as a letter grade, a withdrawal, or an incomplete. Therefore, one student would account for two student seats if that student received a mark in two courses during a summer session.

* Campus data indicate that the majority of the increase from fiscal year 2009-10 to fiscal year 2010-11 is attributable to CSU Long Beach moving its summer session from state-supported to self-supported beginning in 2010.

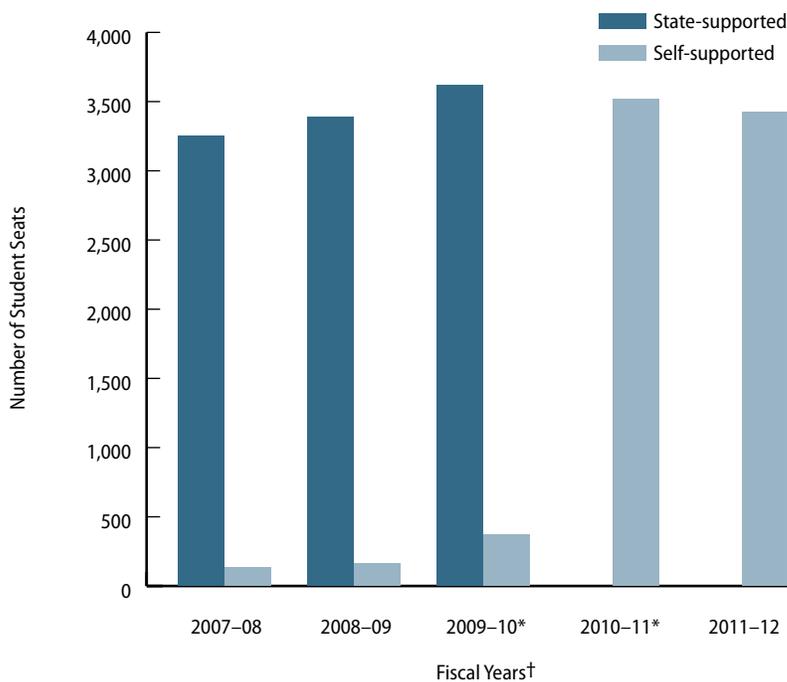
† We included summer session as the first term of a fiscal year and spring semester as the last term. This approach mirrors the definition of *college year* found in the CSU's *Statistical Abstract to July 2010*, the latest edition.

The campus also converted sections for 100 state-supported courses to self-supported May and winter intersession courses because it believed doing so gave students additional access to courses so that they could either accelerate their time to graduate or gain access to courses that are in high demand during the fall and spring terms. The campus reported that the remaining self-supported summer session courses include short-term study abroad opportunities, independent study, and courses for degree programs that have groups of students, or cohorts, that are mutually exclusive from the cohorts in its state-supported degree programs, such as its Master of Arts in Communicative Disorders.

For CSU Sacramento, its 187 instances were related to sections for 177 courses. The campus stated that it opted to convert sections for 73 of its state-supported courses to self-supported summer session courses. As Figure 2 shows, the number of self-supported student seats for the 177 courses increased by more than 3,000 from

the fiscal year 2009–10 summer session to the fiscal year 2010–11 summer session. In fiscal years 2010–11 and 2011–12, a two-year total of almost 7,000 summer session student seats were exclusively for self-supported courses.

Figure 2
California State University, Sacramento
Aggregate Trends for Certain Summer Session Student Seats



Source: California State Auditor’s (state auditor) analysis of data obtained from the California State University’s (CSU) Common Management System. Please refer to the Introduction’s Scope and Methodology for the state auditor’s assessment of the reliability of this data.

Note: The “student seats” amounts represented here count each student once for every course in which they received a mark, such as a letter grade, a withdrawal, or an incomplete. Therefore, one student would account for two student seats if that student received a mark in two courses during a summer session.

* Campus data indicate that the majority of the increase from fiscal year 2009–10 to fiscal year 2010–11 is attributable to CSU Sacramento moving its summer session from state-supported to self-supported beginning in 2010.

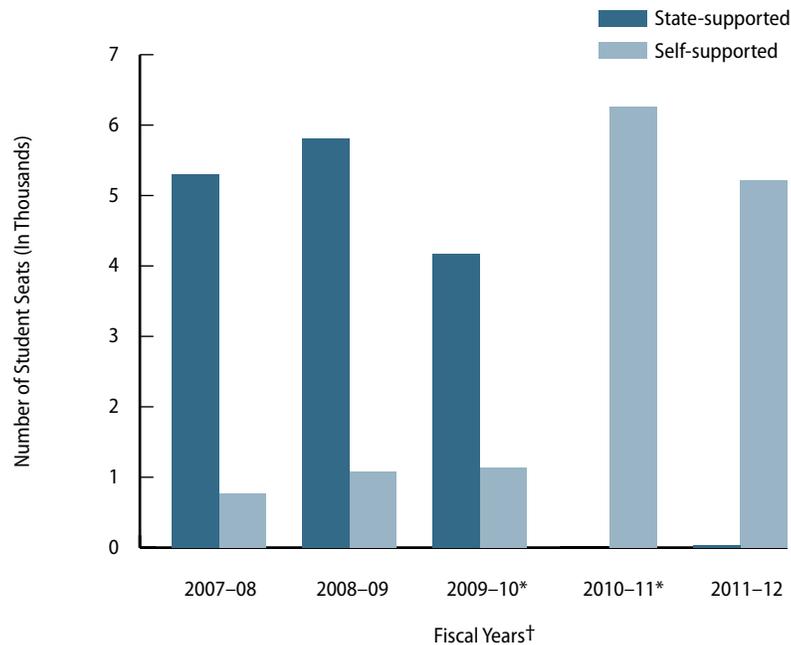
† We included summer session as the first term of a fiscal year and spring semester as the last term. This approach mirrors the definition of *college year* found in the CSU’s *Statistical Abstract to July 2010*, the latest edition.

CSU Sacramento’s credit registration services manager (manager) also reported that 72 of the self-supported courses were labeled “CCE Program Offering,” meaning the courses have been approved as part of the curriculum for a program administered by the College of Continuing Education (self-supported) and are only available to students participating in one of the college’s programs.

The remaining courses were primarily offered during the winter intersession, and according to the manager, the winter intersession has always been provided exclusively by the College of Continuing Education.

Finally, for San José State, its 304 instances were related to 281 courses. The campus stated that it opted to convert sections for 188 of its state-supported courses to self-supported summer session or winter intersession courses in accordance with the Chancellor's Office's instructions. As seen in Figure 3, the number of self-supported student seats for the 281 courses increased by more than 5,000 from the fiscal year 2009–10 summer session to the fiscal year 2010–11 summer session. In fiscal years 2010–11 and 2011–12, only 48 of the two-year total of more than 11,500 summer session student seats were for state-supported courses.

Figure 3
San José State University
Aggregate Trends for Certain Summer Session Student Seats



Source: California State Auditor's (state auditor) analysis of data obtained from the California State University's (CSU) Common Management System. Please refer to the Introduction's Scope and Methodology for the state auditor's assessment of the reliability of this data.

Note: The "student seats" amounts represented here count each student once for every course in which they received a mark, such as a letter grade, a withdrawal, or an incomplete. Therefore, one student would account for two student seats if that student received a mark in two courses during a summer session.

* Campus data indicate that the majority of the increase from fiscal year 2009–10 to fiscal year 2010–11 is attributable to San José State University moving its summer session from state-supported to self-supported beginning in 2010.

† We included summer session as the first term of a fiscal year and spring semester as the last term. This approach mirrors the definition of *college year* found in the CSU's *Statistical Abstract to July 2010*, the latest edition.

San José State did not distinguish between the self-supported summer session and winter intersession courses, stating only that winter intersession has always operated on a self-supported basis. The campus reported that the remaining self-supported courses were primarily related to degree programs offered to distinct noncampus populations (e.g., Lockheed Martin engineers) and to nonmatriculating Open University students.¹³

Legislative Changes Are Necessary to Determine the Impact of Supplanting State-Supported Courses

Because of the different interpretations of the term *supplanting* and the absence of a method for measuring whether supplanting was occurring, we could not definitively conclude that supplanting occurred on the campuses, nor the extent to which it occurred. We also could not precisely measure the effect on students of the campuses' potential instances of supplanting.

Earlier we described two potential interpretations of supplanting: the Chancellor's Office's interpretation found in the 2010 court case and the plain meaning interpretation. As our analysis shows, depending on how *supplanting* is interpreted, there can be significantly different results. We identified 26 potential instances of supplanting using the narrower 2010 court case interpretation but 914 potential instances using the broader, plain meaning interpretation.

In addition, although we were able to analyze the increases and decreases in numbers of courses and course sections moving from state-supported to self-supported, we were unable to determine the reasons for the movement. The campuses provided us with high-level explanations for why they believe that actual supplanting did not occur for the potential instances of supplanting we found. However, to truly understand whether supplanting occurred, the campuses would need to track the movement of the courses or course sections and identify the cause of the movement. In its 2011 memo to the campus presidents, the Chancellor's Office stated that migrating courses and programs from state-supported to self-supported constituted supplanting, but it did not instruct the campus presidents to track this movement. The campuses' individual departments and their respective deans are responsible for making the decision to add, cancel, or reduce the number of courses and course sections. The associate vice president of San José State's Office of Undergraduate Studies noted that

We could not precisely measure the effect on students of the campuses' potential instances of supplanting.

¹³ Open University is a program available on all 23 CSU campuses to anyone who wants to attend a college course without being admitted to the university.

his campus does not have a process in place to systematically monitor the fluctuation patterns for state-supported courses and course sections.

Further, as we explain in Table 3 for objective 9 on page 17, we could not precisely measure the financial and demographic impact that the potential instances of supplanting had on students. However, a full-time undergraduate student who took 6.1 units or more at the three campuses we reviewed would have been charged tuition fees of \$5,472 for academic year 2011–12. If the student also needed to take a three-unit course to achieve his or her CSU degree, and the campuses were to offer this course only during summer session through extended education, the campuses would charge the student additional fees ranging from \$822 to \$945 to take this course. Conversely, if the same student needed to take only one three-unit course to achieve his or her degree, and the campuses were to offer this course only during summer session through extended education, the campus would not charge the student tuition fees of \$3,174 for zero to six units, as it otherwise would during the academic year. Instead, the campus would charge the student fees ranging from \$822 to \$945 to take the course and the student would save between \$2,229 and \$2,352.

In its December 2009 memo to the campus presidents, the Chancellor's Office stated that the State University Grant (SUG) policy would be modified to permit campuses to award grants, at their discretion, to matriculated students enrolling in self-supported courses that count toward their CSU undergraduate and graduate degrees and approved post-baccalaureate programs. All three campuses stated that they have not awarded their SUG money during the summer term because they have awarded it to students for the spring and fall terms. None of the campuses indicated that it awarded any SUG money to students taking extended education courses, but Table 2 on pages 14 and 15 shows that some students taking these courses were able to receive other types of financial aid. Because some matriculated students may be receiving financial aid to assist with their extended education tuition, we cannot conclude that all of them are paying higher fees.

Because some matriculated students may be receiving financial aid to assist with their extended education tuition, we cannot conclude that all of them are paying higher fees.

Until the Legislature and CSU define *supplanting* and direct the campuses to establish a method for tracking and evaluating the movement between state-supported and self-supported courses and course sections, any instances of supplanting will remain unclear and may result in the campuses charging students additional fees to take extended education courses.

Recommendations

Legislature

To provide sufficient direction to the CSU Chancellor's Office and CSU campuses regarding the supplanting of state-supported courses or programs by self-supported courses or programs, the Legislature should enact clarifying statutory language during the 2014 Legislative Session regarding its intent for California Education Code, Section 89708. This clarifying language should include a definition of the term *supplant* and a description of how CSU should measure whether supplanting is occurring. The clarifying language should also require each CSU campus to take all reasonable steps to ensure that when it makes course or program offering decisions, those decisions do not force students attempting to earn a degree to take courses through extended education that are required as a condition of degree completion.

CSU Office of the Chancellor

To help the Legislature clarify its intent regarding supplanting as identified in the California Education Code, Section 89708, the Chancellor's Office should immediately begin working with the Legislature and its staff to that end.

Until the Legislature clarifies its intent regarding California Education Code, Section 89708, the Chancellor's Office should immediately finalize its executive order pertaining to extended education. This guidance should identify appropriate oversight mechanisms for ensuring campuses' compliance with this law.

Within six months of the date the Legislature clarifies its intent regarding California Education Code, Section 89708, the Chancellor's Office should develop and issue final guidance to campuses regarding supplanting, including identifying appropriate oversight mechanisms for ensuring campuses' compliance with this law.

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Chapter 2

CAMPUSES COULD NOT DEMONSTRATE THEY FOLLOWED THE CALIFORNIA STATE UNIVERSITY STUDENT FEE POLICY FOR EXTENDED EDUCATION

Contrary to policy established by the California State University (CSU), the three CSU campuses we examined did not always prepare and consider statements of revenues and expenditures when setting fees for extended education programs.¹⁴ CSU policy requires campus presidents to consider the information on these statements before establishing or adjusting any fee. In addition, two of the three campuses we reviewed raised fees using unjustified methodologies. When campuses do not follow the CSU student fee policy, they cannot justify the fees they set and charge students for extended education courses and programs. In addition, we do not find that a systemwide cap for extended education fees is necessary. Although state law requires CSU to collect from students tuition fees that are adequate to cover the costs of extended education, it does not specify a maximum amount of fees that campuses can charge for extended education. A systemwide fee cap is not necessary because, if the campuses follow it, CSU's current student fee policy for extended education appears reasonable and is consistent with state law. Finally, the CSU's Office of the Chancellor (Chancellor's Office) can improve its oversight of the extended education fees by reviewing each campus's inventory of fees to determine their appropriateness. Until it does so, the Chancellor's Office cannot identify extended education fees that may be more than adequate to cover the costs of the courses and programs.

Campuses Could Not Always Demonstrate Their Compliance With the CSU Student Fee Policy

In violation of the CSU student fee policy, none of the three campuses we examined prepared statements of revenues and expenditures when setting fees for all or some of the extended education programs we examined. As shown in the text box, Executive Order 1054 issued by the Chancellor's Office requires the campus president to consider revenue and expenditure

The California State University Student Fee Policy

Category V fees are fees paid to self-supported programs such as extended education, parking, and housing, including materials and services fees, user fees, fines, and deposits.

The campus president is delegated authority for the establishment, oversight, and adjustment of Category V fees.

The president shall establish a fee advisory committee comprised of student, faculty, staff, and administrative representatives.

A statement of revenues and expenditures including a minimum of one year of actual costs and two years of projected revenue and expenditures for the fee revenue supported activity shall be developed by the campus chief financial officer and considered by the president before establishing or adjusting any fee.

The president will make a determination on Category V fees after consideration of the revenue and expenditure plans associated with the fees, and will then notify the fee advisory committee of his or her decision.

Source: Executive Order 1054, effective January 14, 2011.

¹⁴ CSU uses several different terms when referring to extended education, including *continuing education*, *special session*, and *self-support or self-supported courses and programs*. We use the term *self-supported* for this report, unless another term was specifically cited in state law or CSU policy.

We believe it is reasonable for campuses to develop and consider statements of revenues and expenditures before establishing or adjusting extended education fees.

plans before determining fees for self-supported extended education programs. Executive Order 1054 also requires the campus's chief financial officer to develop a statement of revenues and expenditures including a minimum of one year of actual costs and two years of projected revenues and expenditures for the fee revenue supported activity and to present the statement to the campus president for consideration before establishing or adjusting any fee.¹⁵ The senior budget director for the Chancellor's Office said that the statement of revenues and expenditures referred to in Executive Order 1054 is for the development of systemwide and campus mandatory tuition fees and other fees, not self-supported fees, such as extended education. However, Executive Order 1054 explicitly states that the statements "shall be developed by the campus chief financial officer and considered by the president prior to establishing or adjusting *any fee*." Moreover, as we discuss later, some of the campuses have incorporated the statements in their student fee policies. State law requires CSU to require and collect from students enrolled in each special session tuition fees that are adequate, in the long run, to meet the cost of maintaining the special sessions. In addition, according to Executive Order 1054, one of the three policies that are the foundation of the California Master Plan for Higher Education is the maintenance of low fees. We believe it is reasonable for campuses to develop and consider statements of revenues and expenditures before establishing or adjusting extended education fees. These statements allow the campus presidents to determine whether the tuition fees the campuses collect from students are adequate to cover the costs of their special sessions.

However, CSU Sacramento did not prepare statements of revenues and expenditures when it set fees for its self-supported Master of Science in Geology and Accelerated Second Bachelor of Science in Pre-Licensure Nursing (ASBSN) programs, nor did it prepare a statement of revenues and expenditures for its 2011 self-supported summer session undergraduate per-unit fee of \$285.¹⁶ CSU Sacramento's associate vice president of budget planning and administration (associate vice president) indicated that the campus's College of Continuing Education submits fee proposals for ranges of fees associated with a specific category (for example, self-supported extended education) rather than fees for individual programs. The associate vice president also stated that the campus does not prepare the statements of revenues and expenditures for the proposed fee ranges because the number of different programs and the varying fee rates would make preparing the statements difficult.

¹⁵ Executive Order 1054 supersedes Executive Order 1034, issued by the Chancellor's Office on June 26, 2008. Both executive orders contain the extended education requirements shown in the text box on page 37.

¹⁶ On October 16, 2013, CSU Sacramento's Web site stated that the campus placed its ASBSN program on hiatus for program and curriculum development purposes.

We asked the associate vice president if the campus had sought approval from the Chancellor's Office to deviate from Executive Order 1054 and approve a range of fees instead of individual program fees and to not prepare the statement of revenues and expenditures for the self-supported extended education fees. The associate vice president stated that because Executive Order 1054 delegates to the campus president the authority to establish, oversee, and adjust self-supported extended education fees, there was no need to seek approval from the Chancellor's Office. The associate vice president also stated that "while formal statements were not attached, the prior year and current revenues and expenditures were reviewed to determine the fund's financial situation. Also, the President can discuss the operational need for fee increases by meeting with the Provost and/or Dean of College of Continuing Education prior to approving the fees. Either the Provost and/or the Dean can explain the College of Continuing Education's plans to the President for consideration. Additionally, those areas also have the ability to pull financial information from our campus data warehouse for review."

However, the Standing Orders of the Board of Trustees of the California State University adopted on March 15, 2006, address delegation to the campus presidents and specifically state that the campus presidents are the chief executive officers for their campuses and have authority and responsibility, with appropriate consultation, to take whatever actions are necessary, consistent with trustee and chancellor's policies and applicable law, for the appropriate functioning of each of their campuses. Thus, because his approval of a range of fees rather than individual fees for each self-supported extended education program is not consistent with the chancellor's policy as expressed in Executive Order 1054, we believe that the campus president should have sought approval from the Chancellor's Office to deviate from Executive Order 1054.

In addition, the associate vice president's statements are inconsistent with the campus's *Student Fee Policy*, issued by the president on September 29, 2008, which incorporates Executive Order 1054. The policy requires those departments seeking to establish or adjust self-supported program fees to submit their requests to the campus president using a form titled Campus Fee Proposal for Presidential Review Process. The fee proposal requires the departments to submit their rationale for the fee and a one-year revenue and expense projection. The fee proposal demonstrates that the campus has a formal process for the president to review self-supported extended education program fees that it did not follow. Finally, we asked the Chancellor's Office's senior budget director whether, if a campus president approved a range of up to \$1,000 per unit for all self-supported extended education program fees, it would be acceptable for a campus to charge an \$800 per-unit fee for a newly

The campus president should have sought approval from the Chancellor's Office to deviate from the executive order.

established program. The senior budget director stated that any fee within the range would still have to be approved in accordance with a revenue and expenditure plan, but once the justification and plan information were reviewed and approved, the fee could be implemented without any additional formal approvals.

CSU Long Beach also could not demonstrate that it prepared statements of revenues and expenditures when it set fees for its self-supported Bachelor of Science in Engineering Degree Completion Program for Electrical Engineering and its self-supported Master of Arts in Dance (MA Dance) program. The senior director of finance and business services for CSU Long Beach's College of Continuing and Professional Education stated that he was unable to locate the fee approval documents for these programs. However, he was able to provide us with the statements of revenues and expenditures for a recent fee increase for the MA Dance program and the 2013 summer session undergraduate per-unit fee of \$299. In fiscal year 2010–11, CSU Long Beach increased the fee for the MA Dance program from \$260 per unit to \$475 per unit. The campus's *Student Fee Policy and Fee Request Process* requires its departments to follow Executive Order 1054, and the campus provides online forms that the departments use to submit their requests to the campus president for approval. The request must include the justification for the fee and a statement of revenues and expenditures, which includes the prior year's actual costs and two years of projected costs. The campus also provides a methodology for calculating the fee. Table 6 presents the campus's calculation of the fee increase to \$475 per unit, which the president approved on November 30, 2010.

We question the campus's calculation of the direct allocations because the calculation is based on a percentage of program revenue instead of the direct and indirect costs associated with the program.

We question the campus's calculation of the direct allocations because the calculation is based on a percentage of program revenue instead of the direct and indirect costs associated with the program. In arriving at the direct allocation amount of \$42,750 for fiscal year 2011–12, the campus computed a gross revenue of \$85,500 by multiplying the recommended fee of \$475 by 180 (the number of students/semester). Using the computed gross revenue of \$85,500, the campus then applied the percentages in the memorandum we discuss in Table 6 to arrive at the direct allocation estimate of \$42,750. The campus's use of a revenue amount, based on the recommended fee, to compute the direct allocations artificially inflates the total costs it uses to calculate the recommended fee.

The *Chancellor's Office's Supplemental Systemwide Cost Recovery Guideline for Continuing Education* (cost recovery guideline) states that special session programs have components of cost recovery that the campuses should address. The cost recovery guideline also states that campuses can use allocations to reimburse state-supported instruction for identifiable direct costs and indirect costs as covered by their cost allocation plans. In its cost allocation plans, CSU Long Beach defines *direct costs* as costs that can be readily assigned to a particular cost

Table 6
California State University, Long Beach’s Methodology for Calculating the Fee for Its Master of Arts in Dance Program
Fiscal Years 2010–11 Through 2012–13

	FISCAL YEARS		
	2010–11 (ACTUAL)	2011–12 (PROJECTION)	2012–13 (PROJECTION)
Personnel services costs			
Salaries and wages	\$23,283	\$28,000	\$28,000
Staff benefits	446	560	560
Supplies and services			
Tangible consumable materials	2,000	2,000	2,000
Other costs-direct allocations*	14,518	42,750	35,625
Total costs	\$40,247	\$73,310	\$66,185
Number of students/semester [†]	126	180	150
Calculated fee per student [‡]	\$319	\$407	\$441
Current fee per student [‡]	Various [§]	–	–
Recommended fee		\$475	

Source: California State University Long Beach (CSU Long Beach) Request to Modify an Existing Category V Fee (self-supported extended education fee) dated November 30, 2010; became effective summer 2011.

* The direct allocations are based on a memorandum of understanding between the College of Continuing and Professional Education, the College of the Arts, and the Department of Dance. The memorandum states that these allocations are for “indirect and overhead” costs. Indirect and overhead costs are calculated as a percentage of gross revenue. The parties to the memorandum receive direct allocations as follows: College of Continuing and Professional Education receives 25 percent, the Department of Dance receives 15 percent, the Office of the Chancellor receives 5 percent, and the campus receives 5 percent. In addition, the College of Continuing and Professional Education and the College of the Arts each receive 50 percent of any remaining revenue.

† The number of students/semester represents the number of students enrolled in the program multiplied by the number of units they either have taken or are expected to take during the summer session. For example, the 126 for fiscal year 2010–11 was based on the enrollment of 14 students with each student taking nine units. Thus, the phrase “number of students/semester” is actually the number of units.

‡ The phrase “fee per student” is actually the fee per unit.

§ In summer 2010 the fees for the program were \$260 per unit for California residents and \$583 per unit for nonresidents.

objective with a high degree of accuracy. It also defines *indirect costs* as costs that cannot be readily assigned to a particular cost objective without an effort disproportionate to the benefits to be received. The memorandum of understanding between the College of Continuing and Professional Education, the College of the Arts, and the Department of Dance outlines specific responsibilities for each party that can be readily assigned to the MA Dance program. For example, the Department of Dance is responsible for establishing the acceptance criteria for the program; reviewing, approving, and sponsoring the program curriculum; and determining student eligibility and acceptance.

The department should be able to easily track the hours its staff spends on these tasks and assign them to the MA Dance program. However, the memorandum of understanding states that direct allocations are for indirect costs related to the Chancellor's Office and the campus, and the overhead costs are for the Department of Dance and the College of Continuing and Professional Education. The College of Continuing and Professional Education did not provide us with documentation to demonstrate how it arrived at the allocation percentages for the Department of Dance and itself. Instead, the associate vice president and international education dean of the college stated that these allocation percentages have been in place for many years and that he was unsure of the historical methodology the campus used to develop them. The dean also stated that the campus annually reviews the appropriateness of the allocation levels during its budgeting process, but reviewing the allocation levels is not the same as reviewing the development of the allocation percentages. Further, the dean did not provide documentation to support the reviews that occur during the budgeting process.

Based on our methodology, the campus's fee increase from \$260 to \$475 was unwarranted.

We calculated the direct allocations based on 50 percent of the fiscal year 2011–12 projected direct costs of \$30,560. The 50 percent represents the total of the direct allocation percentages that we discuss in Table 6. Based on our methodology, the campus's fee increase from \$260 to \$475 was unwarranted. In fact, for fiscal years 2011–12 and 2012–13, the campus's financial records indicate that the program's revenues exceeded its total costs by \$24,651 and \$11,716, respectively. During these fiscal years, direct allocations totaling \$78,613 were primarily paid to the College of Continuing and Professional Education and the Department of Dance.

The senior director of finance and business services does not believe that the MA Dance program fees are excessive. Instead, he stated that because of the unique nature of this program, the price is a great bargain in the marketplace. However, he did not provide us with the market study, prepared at the time the fees were set, to support his statement. The associate vice president and international education dean of the College of Continuing and Professional Education stated that the college did not prepare a market study because the program was an existing one. However, we would expect the campus to prepare a market study to justify raising its fee from \$260 per unit to \$475 per unit for California residents. Thus, we cannot conclude that the MA Dance program fee of \$475 per unit is reasonable.

The campus used the same methodology in setting the 2013 summer session undergraduate per-unit fee of \$299. The campus computed the gross revenue using the recommended fee before applying the direct allocation percentages. In addition, the College of Continuing and Professional Education did not provide us with documentation to demonstrate how it arrived at the allocation percentages.

The associate vice president and international education dean of the College of Continuing and Professional Education stated he was unsure of the historical methodology the campus used to develop the allocation percentages for the indirect costs of his college and the other colleges. The dean also stated that the allocation percentage for the campus's Academic Affairs Division is based on the campus's fair and estimated judgment. Further, the dean stated that the campus annually reviews the appropriateness of the allocation levels during its budgeting process, but as previously stated, reviewing the allocation levels is not the same as reviewing the development of the allocation percentages. The dean also did not provide documentation to support the reviews that occur during the budgeting process. Thus, we cannot conclude that the 2013 summer session undergraduate per-unit fee of \$299 is reasonable.

The associate vice president and international education dean of the College of Continuing and Professional Education expressed concern that using the identifiable direct costs and indirect costs as covered by an approved cost allocation plan to calculate the direct allocation component of the fee would generate a loss for the campus's extended education program. However, after the College of Continuing and Professional Education calculates the individual fees for each extended education program, using the identifiable direct costs and indirect costs, it could apply an established percentage to the individual fee to represent the program reinvestment that is to be shared, based on partnership agreements, between the College of Continuing and Professional Education and the colleges and departments, referred to as *campus partners*, in accordance with the Chancellor's Office's *CERF Program Reinvestment Allocation Guideline* (reinvestment guideline). The reinvestment guideline states that the purpose of program reinvestment is to fund the development of new or to enhance existing self-supported programs. The reinvestment guideline also states that program reinvestment allocations are different from allocations described in the cost recovery guideline to reimburse state funds for resources spent on behalf of self-supported operations, because they support the mission of the continuing education program. Finally, the reinvestment guideline states that fees for special session programs are shared with, or allocated to, campus partners based on partnership agreements. Thus, the College of Continuing and Professional Education could use a two-step process to ensure that it complies with the Chancellor's Office's cost recovery and reinvestment guidelines when setting fees for its extended education programs.

Finally, San José State could not demonstrate that it prepared statements of revenues and expenditures when it set fees for its self-supported Medical Product Development Management and Global Studies Online programs. According to San José State's associate vice president of finance, the campus was unable to

San José State could not demonstrate that it prepared statements of revenues and expenditures when it set fees for certain self-supported programs.

San José State raised its undergraduate fee from \$315 per unit for summer session 2011 to \$388 per unit for summer session 2012, even though estimated fees would generate revenues that exceeded expenditures by more than \$2 million.

locate the fee approval documents, including the statements of revenues and expenditures, for either of these programs. The director of finance and operations of the College of International and Extended Studies also could not explain why the college did not have the approval documents for these programs. In addition, even though its fee proposal indicated that the fees would generate revenues that exceeded expenditures by more than \$2 million, San José State raised its undergraduate fee from \$315 per unit for summer session 2011 to \$388 per unit for summer session 2012. The associate vice president of finance stated that the campus set its self-supported summer session fee to match the state-supported summer session fee approved by the Chancellor's Office because it would not make sense to have a self-supported summer session program with fees lower than the state-supported summer session program. However, the associate vice president of finance's statement is inconsistent with state law and the CSU student fee policy, which require campuses to generate adequate revenue to cover the costs of their extended education courses and programs and to maintain low fees.

When campuses either do not comply with the CSU student fee policy or do not retain documentation to demonstrate their compliance with the policy, they cannot justify that the fees they set and charge students for extended education courses and programs are adequate to cover the costs of maintaining the special sessions, as state law requires. Moreover, unless the Chancellor's Office establishes a process to periodically review the methodologies the campuses use to calculate tuition fees, it has no way of ensuring that the campuses are making every effort to keep student costs to a minimum, which is one of the goals stated in the CSU student fee policy.

The Chancellor's Office Can Do More to Ensure That Tuition Fees for Self-Supported Courses and Programs Are Adequate to Cover Costs but Are Not Excessive

As mentioned previously, state law requires CSU to collect from students enrolled in each special session tuition fees that are adequate to meet the cost of maintaining the special sessions in the long run. In fiscal year 2011–12, the three campuses we reviewed could charge students taking undergraduate self-supported courses that had an equivalent state-supported course up to \$302 per unit, while they were authorized to charge students taking undergraduate state-supported courses \$5,472 for 6.1 units or more.¹⁷ While the

¹⁷ For the purposes of this audit, a self-supported course had an equivalent state-supported course if it was taught as a state-supported course at any point during our five-year audit period.

CSU student fee policy requires each campus to report annually to the chancellor a complete inventory of its self-supported program fees, the Chancellor's Office does not review these inventories to determine the appropriateness of the self-supported extended education program fees.

In the previous section, we described the CSU student fee policy. According to our legal counsel, this policy is consistent with state law. However, we found that the three campuses could not demonstrate they followed this policy, because none of the three prepared statements of revenues and expenditures when setting fees for all or some of the self-supported extended education programs we examined. In these instances, we were unable to determine whether the fees were adequate to cover the costs of the self-supported extended education programs. In addition, our analysis of the fees for self-supported undergraduate and graduate courses held during fiscal years 2007–08 through 2011–12 at CSU Long Beach, CSU Sacramento, and San José State found varying results. Table 7 on the following page summarizes each campus's average fee per unit and fee per course for each fiscal year for undergraduate and graduate self-supported courses that had an equivalent state-supported course.

The average fee per unit for undergraduate self-supported courses that had an equivalent state-supported course at CSU Long Beach and CSU Sacramento increased by 19 percent and 43 percent, respectively, over the five fiscal years. Similarly, the average fee per unit for graduate self-supported courses that had an equivalent state-supported course at all three campuses increased: 23 percent for CSU Long Beach, 67 percent for CSU Sacramento, and 45 percent for San José State. As an example, according to the senior director of finance for the College of Continuing and Professional Education at CSU Long Beach, the fee increases can be attributed to the increases in expenditures related to administering programs, such as increases in faculty and staff benefits, instructional support, and materials costs.

In contrast, the average fee per unit for undergraduate self-supported courses that had an equivalent state-supported course at San José State decreased by nearly 43 percent over the same period. According to its associate dean of the College of International and Extended Studies, because the cost per extended education program is tied directly to faculty salaries, which have not decreased over the five-year period, he cannot explain why the campus's data would reflect a decrease in the average fees per unit.

The average fee per unit for undergraduate self-supported courses that had an equivalent state-supported course at CSU Long Beach and CSU Sacramento increased by 19 percent and 43 percent, respectively, over the five fiscal years, ending with fiscal year 2011–12.

Table 7
Fee Data for Undergraduate and Graduate Extended Education Courses at Three California State University Campuses
Fiscal Years 2007–08 Through 2011–12

UNDERGRADUATE	FISCAL YEARS*				
	2007–08	2008–09	2009–10	2010–11	2011–12
California State University (CSU) Long Beach					
Average fee per unit for courses charged on a per-unit basis	\$230	\$231	\$241	\$242	\$274
Average fee per course for courses charged on a per-course basis	–	119	750	2,589	2,700
CSU Sacramento†					
Average fee per unit for courses charged on a per-unit basis	211	216	264	280	302
Average fee per course for courses charged on a per-course basis	–	310	210	–	–
San José State University (San José State)‡					
Average fee per unit for courses charged on a per-unit basis	287	260	228	139	164
Average fee per course for courses charged on a per-course basis	827	849	720	658	798
GRADUATE	FISCAL YEARS				
	2007–08	2008–09	2009–10	2010–11	2011–12
CSU Long Beach					
Average fee per unit for courses charged on a per-unit basis	400	392	400	460	491
Average fee per course for courses charged on a per-course basis	–	–	–	–	–
CSU Sacramento†					
Average fee per unit for courses charged on a per-unit basis	245	239	277	324	410
Average fee per course for courses charged on a per-course basis	–	–	–	–	–
San José State‡					
Average fee per unit for courses charged on a per-unit basis	354	432	464	488	513
Average fee per course for courses charged on a per-course basis	901	1,400	1,063	237	543

Source: California State Auditor's (state auditor) analysis of data obtained from CSU's Common Management System. Please refer to the Introduction's Scope and Methodology for the state auditor's assessment of the reliability of this data.

Notes: For purposes of this audit, a self-supported course had an equivalent state-supported course if it was taught as a state-supported course at any point during the five-year period.

This table includes only per-unit and per-course fees assigned to individual courses. We excluded courses that were charged in a different manner, such as those with fees based on a term or program because we were not always able to identify the individual course fees using the data.

* We included summer session as the first term of a fiscal year and spring semester as the last term. This approach mirrors the definition of *college year* found in CSU's *Statistical Abstract to July 2010*, the latest edition.

† CSU Sacramento stated that it did not convert course fee data for summer session 2007 into its current data system because it did not have a business reason to do so. Therefore, we excluded 92 courses and 95 course sections from our analysis.

‡ At San José State, 246 courses were charged both per-unit and per-course fees during our five-year audit period. For purposes of this analysis, we calculated the total fee amount for each of these courses and counted them as "fee per course."

The Board of Trustees of the CSU sets the state-supported systemwide tuition fees the campuses charge. Table 8 summarizes CSU's systemwide tuition fees, by student type, for academic years 2007–08 through 2011–12. The systemwide state-supported tuition fees for both student types increased by 97 percent over the five academic years.

Table 8
California State University’s Systemwide State-Supported Tuition Fees
Academic Years 2007–08 Through 2011–12

STUDENT TYPE	ACADEMIC YEARS									
	2007–08		2008–09		2009–10		2010–11		2011–12	
	0 TO 6 UNITS	6.1 OR MORE UNITS	0 TO 6 UNITS	6.1 OR MORE UNITS	0 TO 6 UNITS	6.1 OR MORE UNITS	0 TO 6 UNITS	6.1 OR MORE UNITS	0 TO 6 UNITS	6.1 OR MORE UNITS
Undergraduate	\$1,608	\$2,772	\$1,770	\$3,048	\$2,334	\$4,026	\$2,514	\$4,335	\$3,174	\$5,472
Graduate and post-baccalaureate	1,980	3,414	2,178	3,756	2,880	4,962	3,099	5,343	3,906	6,738

Source: California State University (CSU) Budget Office’s Web site.

Notes: CSU Stanislaus had a separate fee schedule for academic years 2007–08 through 2009–10 because it included its winter term in the regular academic year.

Executive Order 1054 CSU Student Fee Policy defines “Category I” fees as systemwide mandatory tuition fees and other fees that must be paid to apply to, enroll in, or attend the university, or to pay the full cost of instruction required by some students by statute.

The table does not include Category II fees, which Executive Order 1054 defines as campus mandatory fees that must be paid to enroll in or attend the university. These fees typically are for the student body center, student body association, and health services.

The Category II fees for CSU Long Beach ranged from \$344 per year to \$768 per year.

The Category II fees for CSU Sacramento ranged from \$786 per year to \$1,101 per year.

The Category II fees for San José State University ranged from \$860 per year to \$1,356 per year.

Although the CSU’s two-tier fee structure does not allow for a comparison of the average per-unit fees for state-supported and equivalent self-supported courses, we do not believe that a systemwide cap for self-supported extended education program fees is necessary. Officials with the Chancellor’s Office and two of the three campuses identified negative impacts of implementing a systemwide fee cap, such as limiting the campuses’ ability to offer certain higher-cost courses and programs and restricting the campuses’ ability to be competitive in developing and offering new courses and programs that cost more based on discipline, degree level, and value added to the profession.

We believe that Executive Order 1054, if followed, allows the Chancellor’s Office the ability to effectively monitor self-supported extended education program fees. Specifically, Executive Order 1054 requires each campus to report annually to the chancellor, for the most recently completed fiscal year, a complete inventory of certain types of fees, including past and current year fee rates, the total revenue collected for each of these fees, and the remaining balance of the revenue collected for each of these fees. Further, Executive Order 1054 requires the chancellor to present the annual report for systemwide mandatory tuition fees and other fees to the CSU board so it can consider the level and range of fees the campuses charge to students.¹⁸

¹⁸ Executive Order 1034, issued in June 2008, included similar language.

However, the Chancellor's Office's data entry criteria instructions on how the campuses should report the inventory have been inconsistent during fiscal years 2007-08 through 2011-12. For example, the data entry criteria for fiscal years 2010-11 and 2011-12 did not instruct the campuses to report the past and current year fee rates, the total revenue collected for each fee, and the remaining balance of the revenue collected for each fee, as Executive Order 1054 requires. Rather, the criteria required the campuses to report past and current year minimum and maximum fee amounts.

Further, for fiscal years 2008-09 through 2011-12, the campuses followed the Chancellor's Office's instructions and did not report a complete inventory of all of their self-supported extended education program fees. The Chancellor's Office was unable to provide a copy of any of the campuses' fee reports for fiscal year 2007-08. CSU Long Beach reported its self-supported extended education fees using the descriptions "administrative, extension course, special session or summer travel" fees. CSU Sacramento reported its self-supported extended education fees using the descriptions "extension course, external degree, special session, or reenrollment" fees. Finally, San José State reported its self-supported extended education fees using the description "extension course."

When we asked the Chancellor's Office what it does if the campuses do not report all of their self-supported extended education fees, its senior budget director stated that the board is primarily interested in the level and range of fees of the campus mandatory tuition fees and has delegated the principal authority for the fiscal management of self-supported program fees to the campus presidents. The senior budget director also stated that the budget office requests that the campuses submit information on the self-supported program fees to inform its review of self-supported fees and revenues, to remind campuses that they have a responsibility to maintain an inventory of fees for campus review, and to remind the campuses that their self-supported program fees can be audited at any time.

However, because the budget office's data entry criteria instructions do not instruct the campuses to report the information that Executive Order 1054 requires, we question its ability to effectively monitor significant increases in the campuses' self-supported extended education fees for specific courses and programs such as CSU Long Beach's MA Dance program. Moreover, the senior budget director could not provide us with examples of audits that were done of the self-supported extended education fees during fiscal years 2007-08 through 2011-12. Until the Chancellor's Office requires the campuses to report information that fully complies with state law and Executive Order 1054, and until it improves its oversight of their annual self-supported program fee reports, the

We question the Chancellor's Office's ability to effectively monitor significant increases in the campuses self-supported extended education fees for specific courses and programs because campuses are not instructed to report certain information.

Chancellor's Office has no way of identifying campuses that collect tuition fees from students in excess of a level adequate to cover the costs of extended education courses and programs.

Recommendations

CSU Office of the Chancellor

To effectively monitor and ensure that the campuses set self-supported fees in accordance with state law and Executive Order 1054, the Chancellor's Office should immediately take the following actions:

- Require campus chief financial officers to develop, and presidents to consider, the statement of revenues and expenditures described in Executive Order 1054 before making a determination on self-supported extended education program fees.
- Instruct campuses to report annually a complete inventory of their self-supported extended education fees, including past and current fee rates, the total revenue collected for each fee, and the remaining balance of revenue collected for each fee.
- Direct its internal audit staff to periodically conduct audits of the campuses' self-supported extended education fees to determine the appropriateness of the fees, including the methodology the campuses use to set the fees and the inventory they report to the Chancellor's Office.

CSU Long Beach

To ensure that it sets self-supported fees for extended education in accordance with state law and Executive Order 1054, CSU Long Beach should immediately take the following actions:

- Prepare a statement of revenues and expenditures for the Bachelor of Science in Engineering Degree Completion Program for Electrical Engineering that we discuss in this report and, if necessary, increase or decrease that program's future fees to appropriate levels.
- Revise its methodology for calculating the direct allocations component of its fees for extended education programs and base the calculation on direct costs that can be readily assigned to the programs and indirect costs that have been identified in its approved cost allocation plan.

- Retain documentation to support the direct allocations it charges extended education programs.
- Prepare and retain market studies to justify the appropriateness of its fee increases.
- Conduct a study to determine the appropriate program reinvestment allocation percentage to apply to the individual fee it sets for each extended education program.
- Retain documentation to support the established program reinvestment allocation percentage.
- Revise its student fee policy to specifically require the development, appropriate consideration, and retention of statements of revenues and expenditures when establishing or adjusting future fees for self-supported extended education courses and programs.
- Revise its student fee policy to include its revised methodology for calculating the direct allocation component of the fee and its procedure for applying the established program reinvestment allocation percentage to the individual fees it sets for each self-supported extended education program.

CSU Sacramento

To ensure that it sets self-supported extended education fees in accordance with state law and Executive Order 1054, CSU Sacramento should immediately take the following actions:

- Discontinue its practice of allowing the College of Continuing Education to submit fee proposals for ranges of fees instead of individual fees for extended education courses and programs.
- Discontinue its practice of approving fee proposals for ranges of fees instead of individual fees for extended education courses and programs.
- Prepare statements of revenues and expenditures for the ongoing programs we discuss in this report, and, if necessary, increase or decrease those programs' future fees to appropriate levels.
- Revise its student fee policy to specifically require the development, appropriate consideration, and retention of statements of revenues and expenditures when establishing or adjusting future fees for extended education courses and programs.

San José State

To ensure that it sets self-supported fees for extended education in accordance with state law and Executive Order 1054, San José State should immediately take the following actions:

- Prepare statements of revenues and expenditures for the programs we discuss in this report, and, if necessary, increase or decrease those programs' future fees to appropriate levels.
- Revise its fee proposal instructions to specifically require the development, appropriate consideration, and retention of statements of revenues and expenditures when establishing or adjusting future fees for each extended education course and program.
- Discontinue its practice of setting its summer session fees for extended education courses and programs based on the fees set by the Chancellor's Office for state-supported summer session courses and programs.

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Chapter 3

CALIFORNIA STATE UNIVERSITY CAMPUSES HAVE NOT CONSISTENTLY FOLLOWED ADMINISTRATIVE PROCESSES RELATED TO SPENDING CONTROLS FOR EXTENDED EDUCATION

The extended education revenues for the three California State University (CSU) campuses we reviewed generally exceeded extended education expenditures during fiscal years 2007–08 through 2011–12.¹⁹ Consequently, each campus had increases in the year-end fund balances of its Continuing Education Revenue Fund (CERF) trust account.²⁰ Although two campuses violated policy issued by CSU’s Office of the Chancellor (Chancellor’s Office) when their reserve balance exceeded six months of their annual operating expenditures, because of uncertainties surrounding the State’s budget the Chancellor’s Office waived the requirement that the campuses submit spending plans. Furthermore, the Legislature, in the Budget Act of 2012, authorized the Chancellor’s Office to transfer balances from the CERF trust account to the campuses’ respective operating fund accounts within the CSU Trust Fund to help mitigate the impacts of reductions in the State’s General Fund appropriations and the level of tuition fee revenues. The Chancellor’s Office authorized the transfer of \$63.2 million for the campuses that met certain requirements; the three campuses we reviewed transferred a total of \$24.2 million of that amount. Finally, primarily because campuses could not provide sufficient documentation, we were unable to conclude that 10 of the 41 extended education transactions we tested were reasonable, allowable, or related to the support and development of extended education instructional programs; therefore, the campuses need to improve their oversight of extended education expenditures.

The Campuses’ Self-Supported Revenues Generally Outpaced Their Expenditures, and Two Campuses Exceeded Their Reserve Limits

Financial information for the three campuses generally showed that their self-supported revenues exceeded their self-supported expenditures for fiscal years 2007–08 through 2010–11, which

¹⁹ CSU uses several different terms when referring to extended education, including *continuing education*, *special session*, and *self-support* or *self-supported courses and programs*. We use the term *self-supported* for this report, unless another term was specifically cited in state law or CSU policy.

²⁰ State law authorizes the Board of Trustees of the CSU (board) to transfer revenues from extension programs, special sessions, and other self-supporting instructional programs to the treasurer, and, if transmitted, state law requires the treasurer to deposit them to the credit of the CERF. State law additionally requires each campus to deposit into and maintain in the CSU Trust Fund money received in connection with fees for extension programs, special sessions, and other self-supporting instructional programs. For purposes of our report, we refer to various CERF trust funds within the CSU Trust Fund as a CERF trust account.

resulted in increases in the year-end fund balances of their CERF trust accounts. State law requires that revenue the CSU campuses receive from extension programs, special session, and other self-supported instructional programs be used for the support and development of CSU self-supported instructional programs. According to the Chancellor's Office's carry-forward fund policy, adopted in August 2007, reserve balances shall be no more than six months of actual CERF operating expenditures. The purpose of the policy is to allow campuses to have working capital and to level out the fluctuations of their operations. When the reserve balance for any campus exceeds this limit, the campus must submit a plan to the Chancellor's Office to explain why it requires a carry-forward balance in excess of six months of working capital. The plan must be approved by the campus president and is subject to review by and written approval from the Chancellor's Office's executive vice chancellor and chief financial officer or his or her designee. In the absence of an approved plan, the excess funds are to be allocated to other campus programs that participate in projects financed in accordance with the State University Revenue Bond Act of 1947.²¹

Although the reserve balance for two of the three campuses exceeded six months of their annual operating expenditures, according to the CSU's executive vice chancellor and chief financial officer, the Chancellor's Office did not require either campus to submit plans. Instead, effective starting with fiscal year 2009–10, it waived the requirement for the plans because of uncertainties surrounding the State's budget from one year to the next. Furthermore, the Budget Act of 2012 gave a temporary exemption to existing state law by allowing the Chancellor's Office to transfer balances from the CERF trust accounts to the CSU Trust Fund to help mitigate the impacts of reductions in the State's General Fund appropriations and tuition fee revenues. The three campuses transferred a total of \$24.2 million from their CERF trust accounts to their respective operating fund accounts within the CSU Trust Fund.

The three campuses transferred a total of \$24.2 million from their CERF trust accounts to their respective operating fund accounts within the CSU Trust Fund.

San José State University's Self-Supported Revenues Far Exceeded Its Expenditures, and Its Fund Balance Exceeded the Established Reserve Limit

For each fiscal year from 2007–08 through 2011–12, San José State University's (San José State) self-supported revenues exceeded its expenditures and net transfers. Table 9 shows that the revenues increased from \$18.6 million in fiscal year 2007–08 to \$31.8 million

²¹ The State University Revenue Bond Act of 1947 (California Education Code, Section 90010 et seq.) authorizes the board to, among other things, issue revenue bonds to raise funds for the purpose of establishing projects, including dormitories or housing facilities, student unions, and parking facilities.

in fiscal year 2011–12. The revenues consisted primarily of student tuition and fees for Open University, special sessions, regular extension, winter intersession, and the summer self-supported session. The campus’s director of budget planning and financial management stated that the continual increase in revenue was a result of enrollment growth.

Table 9
San José State University’s Self-Supported Revenue, Expenditures, Net Transfers, and Fund Balances
Fiscal Years 2007–08 Through 2011–12
(In Thousands)

	FISCAL YEARS				
	2007–08	2008–09	2009–10	2010–11	2011–12
Beginning fund balance	\$4,557	\$7,639	\$10,976	\$15,993	\$23,850
Revenues	18,562	20,380	23,374	32,168	31,798
Expenditures	(15,048)	(15,197)	(16,168)	(21,589)	(27,193)
Net transfers	(432)	(1,846)	(2,189)	(2,723)	(247)
Ending fund balance	7,639	10,976	15,993	23,849*	28,208

Source: California State Auditor’s (state auditor) analysis of data obtained from the California State University’s Common Financial System. Please refer to the Introduction’s Scope and Methodology for the state auditor’s assessment of the reliability of this data.

* Difference due to rounding.

On the other hand, the campus’s expenditures and net transfers ranged from \$15.5 million to \$27.4 million during the same period. These expenditures consisted primarily of salaries and benefits (62.4 percent), miscellaneous operating expenses (22.4 percent), contractual services (4.4 percent), travel (3.9 percent), and information technology costs (2.6 percent).

During fiscal years 2007–08 through 2011–12, revenues exceeded expenditures and net transfers by 23 percent. Consequently, as the table shows, there was a corresponding increase in the campus’s year-end fund balance. Specifically, the fund balance grew from \$7.6 million to \$28.2 million. As noted earlier, until the Chancellor’s Office waived the requirement, when the fund balance exceeded six months of operating expenditures, the campus was to submit a plan to the Chancellor’s Office to explain why it required a carry-forward balance in excess of working capital. We refer to this difference as the campuses’ *excess reserves*.

San José State’s fund balances exceeded six months of its operating expenditures for all five fiscal years and by more than \$12 million for fiscal years 2010–11 and 2011–12. The campus submitted written plans to the Chancellor’s Office for fiscal years 2007–08

The funding plan for a \$28 million project, dated June 14, 2012, identified paying for \$13.2 million of the costs from the campus's annual information technology operating fund budget, decentralized divisional information technology budgets, and CERF information technology purchases. However, a more recent plan showed the \$13.2 million is to be fully funded from the CERF trust account.

and 2008–09; in these plans, the campus stated that it intended to use the excess reserves to fund new building construction and to fund equipment and furniture related to moving its College of International and Extended Studies on campus in 2013. The campus's associate vice president of finance stated that she is unaware of any specific plans for the use of the excess balances for fiscal years 2009–10 and 2010–11. For fiscal year 2011–12, the associate vice president of finance stated that the campus planned to use \$13.2 million of its fiscal year 2011–12 fund balance to help pay for a campuswide instructional technology upgrade project (project). The purpose of the project includes upgrading the campus's classroom and video technology, network access and security, and telephone systems.

The campus estimated that this project, called the Next Gen Technology Project, would cost \$28 million. The campus's feasibility study report for the project, dated June 21, 2012, stated that funding sources such as license fee revenue and campus strategic planning funds would be used to cover the costs. The feasibility study did not mention the use of the campus's CERF trust account funds. The campus's vice president and chief financial officer provided us with a funding plan for the project, dated June 14, 2012, stating the funding sources for \$13.2 million of the costs would be its annual information technology operating fund budget, decentralized divisional information technology budgets, and CERF information technology purchases. However, the associate vice president of finance directed us to the campus's five-year financial plan that was prepared on January 25, 2013. This plan identified the campus's decision to fund the full \$13.2 million using the CERF trust account.

We question San José State's plan to use the CERF trust account for the full \$13.2 million, which is 47 percent of the project's estimated cost. State law and Executive Order 794 require that revenue the CSU campuses receive from extension programs, special sessions, and other self-supported instructional programs be used for the support and development of CSU self-supported instructional programs. In addition, Executive Order 862 requires the Chancellor's Office to approve all information technology projects having an estimated project procurement cost of \$500,000 or more. Executive Order 862 also requires campuses to develop a feasibility study and a solicitation plan in accordance with CSU's *Model Information Technology Project and Procurement Planning Guidelines* (guidelines). Moreover, Executive Order 862 requires the executive vice chancellor and chief financial officer to review and approve a feasibility study and the campus's chief business officer to review and approve a solicitation plan. CSU's guidelines state that the solicitation plan should include budget and funding information, including budget estimates, an explanation of how they were derived, and a discussion of the schedule for obtaining adequate funds at the time they are required. However, the solicitation plan that San José State's vice president and

chief financial officer approved did not include an explanation of how funding was derived, and it did not discuss the campus's schedule for obtaining adequate funds. In addition, the campus could not provide documentation to support its decision to use CERF trust account funds to pay for 47 percent of the project's costs. Specifically, the vice president and chief financial officer stated that there is no requirement that the project funding must be allocated in a "pro rata" manner.

We disagree with the vice president's and chief financial officer's statement. According to the *State Administrative Manual*, regardless of the type of cost, all costs should be allocated according to the most equitable basis that is practical, and they should be allocated consistently throughout a fiscal period. The *State Administrative Manual* states that direct costs are incurred for activities or services that benefit specific projects. Because these activities and services are easily traceable to a project or program, these costs may be charged to the project or program on an item-by-item basis. The *State Administrative Manual* also states that indirect costs are assigned to the programs they benefit according to the methodology that represents a reasonable and equitable distribution and provides three of the most common methods for distributing these costs: dividing the total costs for a program by the total costs for all programs; dividing the total hours required to provide services for a program by the total hours required to provide services for all programs; and dividing a program's square footage, number of employees, or other equitable distribution base by the total square footage, number of employees, or other equitable distribution base for all programs.

In addition, Executive Order 1000 and the *Integrated CSU Administrative Manual* (manual) state that campuses must ensure that costs charged to the CSU Operating Fund for services, products, and facilities paid from other CSU funds are properly and consistently recovered with cash and/or a documented exchange of value. According to the manual, allowable direct costs that the CSU Operating Fund incurs shall be allocated and recovered based on actual costs incurred, and allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that uses a documented and consistent methodology, including identification of indirect costs and a basis for allocation. Thus, we would expect the campus to apply the same basic principles found in the *State Administrative Manual* and campus policies to allocate the project's costs to the CERF trust account funds.

According to its budget for fiscal year 2012–13, extended education represents only 14.2 percent of San José State's operating fund revenue and 7.1 percent of its overall expenditures. In addition, only 25 percent of San José State's students are enrolled exclusively in extended education. The associate vice president of finance stated

The campus could not provide documentation to support its decision to use CERF trust account funds to pay for 47 percent of the project's costs.

that as of October 3, 2013, the campus transferred the \$13.2 million, or 47 percent of the project's estimated costs, from the CERF trust account to fund the project. Regardless of the allocation methodology selected, it appears as though the campus charged the CERF trust account a disproportionate share of the project's costs.

Because the Chancellor's Office waived the requirement for campuses to submit spending plans, it missed the opportunity to review and approve San José State's plan for using CERF trust account funds to pay for the project. According to its senior budget director, the Chancellor's Office waived the requirement for the campuses to submit plans for fiscal years 2009–10 through 2011–12 because of uncertainties surrounding the State's budget. The senior budget director identified the following specific reasons for the Chancellor's Office suspending the carry-forward report starting with fiscal year 2009–10:

- Fiscal year 2009–10: CSU faced budget cuts, and a \$571 million General Fund reduction was still in effect. In addition, CSU continued to operate under an enrollment reduction plan reflecting potential revenue losses of \$130 million.
- Fiscal year 2010–11: CSU faced a \$500 million General Fund loss in January 2011 that was increased by \$150 million just as the State's budget was enacted in July, leaving no time for responsible fiscal planning. CSU faced an additional \$100 million reduction on top of the \$650 million General Fund loss, and campuses were absorbing a \$22 million revenue loss due to changes in the mix of students (e.g., graduate or undergraduate students and full-time or part-time students).
- Fiscal year 2011–12: CSU faced a potential \$250 million budget reduction in December 2012. CSU proposed budget language to permit the transfer of CERF trust account funds to assist the operating budgets in the event of the \$250 million loss or the loss of \$132 million in revenue if CSU were required to roll back tuition fees to fiscal year 2011–12 levels.

Although the CSU fiscal year ends on June 30, the Chancellor's Office does not identify the excess reserve balances and request that campuses submit their plans under the suspended carry-forward fund policy until December 31. The campuses then have until February 15 to submit their plans to the Chancellor's Office. The budget office for the Chancellor's Office completes its review and approval process by February 28. According to the senior budget director, the Chancellor's Office will resume the implementation of its carry-forward fund policy for fiscal year 2012–13 reserve balances, with requests to the campuses to submit their plans by December 31, 2013. Until the Chancellor's Office reinstates

its review of the campuses' plans, it cannot ensure that the campuses plan to spend the fund balances from the CERF trust account appropriately.

CSU Long Beach's Self-Supported Revenues Also Exceeded Its Expenditures, and Its Fund Balance Exceeded the Established Reserve Limit

For each fiscal year from 2007–08 through 2011–12, CSU Long Beach's self-supported revenues exceeded its expenditures and net transfers. Table 10 shows that the revenues increased from \$16.8 million to \$29.3 million. The revenues at CSU Long Beach consisted primarily of student tuition and fees for summer session, degree programs, American Language Programs, Open University, and noncredit certificate programs. The associate vice president and international education dean of the campus's College of Continuing and Professional Education stated that the continual increase in revenue was a result of the campus's decision to move its summer session to extended education starting with summer 2010, the growth of its English language program, and a new international training program that trains middle- to upper-level managers from overseas.

Table 10
California State University, Long Beach's Self-Supported Revenues, Expenditures, Net Transfers, and Fund Balances
Fiscal Years 2007–08 Through 2011–12
(In Thousands)

	FISCAL YEARS				
	2007–08	2008–09	2009–10	2010–11	2011–12
Beginning fund balance	\$1,634	\$1,667	\$2,419	\$2,652	\$7,429
Revenues	16,823	18,238	17,267	28,833	29,293
Expenditures	(12,756)	(14,756)	(14,302)	(18,850)	(21,192)
Net transfers	(4,034)	(2,730)	(2,731)	(5,205)	(4,832)
Ending fund balance	1,667	2,419	2,653*	7,430*	10,698

Source: California State Auditor's (state auditor) analysis of data obtained from the California State University's Common Financial System. Please refer to the Introduction's Scope and Methodology for the state auditor's assessment of the reliability of this data.

* Difference due to rounding.

CSU Long Beach's self-supported expenditures and net transfers ranged from \$16.8 million to \$26 million during the same period. The expenditures consisted primarily of salaries and benefits (67.9 percent), miscellaneous operating expenses and depreciation (14.2 percent), contractual services (10.1 percent), and travel (3.3 percent).

During fiscal years 2007–08 through 2011–12, extended education revenues exceeded the expenditures and net transfers by 9 percent. As the table shows, there was also an increase in the campus's year-end fund balance. Specifically, the fund balance grew from \$1.7 million to \$10.7 million. Moreover, CSU Long Beach's fund balances exceeded six months of its operating expenditures for fiscal years 2009–10 through 2011–12. However, CSU Long Beach did not submit plans to the Chancellor's Office for resolving the excess reserves because, as previously discussed, the Chancellor's Office waived the plan requirement for those fiscal years.

Although CSU Sacramento's Self-Supported Revenues Did Not Exceed the Established Reserve Limit, They Did Generally Exceed Expenditures

For each fiscal year from 2007–08 through 2011–12, CSU Sacramento's self-supported revenues mostly exceeded its expenditures and net transfers. Table 11 shows that the revenues increased from \$22.8 million to \$26.5 million. For fiscal years 2007–08 and 2009–10, expenditures and net transfers exceeded revenues by roughly \$130,000 and \$714,000, respectively. The revenues at CSU Sacramento consisted primarily of student tuition and fees for noncredit courses, external degrees, and summer session. The campus's university controller stated that the increase in revenue was a result of a change in allocation method, summer session moving to self-supported, a summer fee revenue increase of \$1.4 million, and an increase in the English Language program. The university controller also stated that, while revenues increased over time, the expenditures were reduced or remained fairly level because of major efforts by the campus to improve its efficiency, which resulted in an increase in the fund balance.

Table 11
California State University, Sacramento's Extended Education Revenue, Expenditures, Net Transfers, and Fund Balances
Fiscal Years 2007–08 Through 2011–12
(In Thousands)

	FISCAL YEARS				
	2007–08	2008–09	2009–10	2010–11	2011–12
Beginning fund balance	\$4,705	\$4,576	\$5,894	\$5,179	\$7,039
Revenues	22,769	23,550	19,091	23,535	26,527
Expenditures	(22,899)	(22,232)	(19,350)	(21,376)	(22,752)
Net transfers	–	–	(455)	(300)	–
Ending fund balance	4,575*	5,894	5,180*	7,038*	10,814

Source: California State Auditor's (state auditor) analysis of data obtained from the California State University's Common Financial System. Please refer to the Introduction's Scope and Methodology for the state auditor's assessment of the reliability of this data.

* Difference due to rounding.

CSU Sacramento's self-supported expenditures and net transfers ranged from a low of \$19.8 million to a high of \$22.9 million during the same period. These expenditures consisted primarily of salaries and benefits (58.2 percent), miscellaneous operating expenses and depreciation (34.9 percent), and travel (3.5 percent).

During fiscal years 2007–08 through 2011–12, CSU Sacramento's revenues exceeded the expenditures and net transfers by an average of 6 percent. As the table shows, there was an increase in the campus's CERF trust account from \$4.6 million to \$10.8 million. The campus did not have excess reserves in its CERF trust account fund balance.

During fiscal years 2007–08 through 2011–12, CSU Sacramento's revenues exceeded the expenditures and net transfers by an average of 6 percent.

In 2012 the Legislature Authorized the Transfer of Money From CERF Trust Accounts to the Operating Fund Accounts

For the three campuses we visited, a total of \$24.2 million was transferred from their CERF trust accounts to their respective operating fund accounts within the CSU Trust Fund to pay for expenditures related to their state-supported instructional programs. The Budget Act of 2012 (Chapter 630, Statutes of 2012) authorized the Chancellor's Office to transfer balances from the CERF trust accounts to the CSU Trust Fund to help mitigate the impact of reductions in the State's General Fund appropriations and tuition fee revenues on state-supported instructional programs. Related to this transfer authorization, the Budget Act required the Chancellor's Office to submit specified reports to the Legislature, including a report within 10 days of the transfer identifying the transferred amount and a report by June 30, 2013, describing how the transfer impacted self-supported instructional programs and how transferred funds were used.

In a November 2012 letter to the Legislature, the Chancellor's Office stated that to mitigate the impact of an estimated \$132 million revenue loss caused by a rollback of 2012–13 tuition fees to 2011–12 fee levels, the chancellor authorized the transfer of \$63.2 million from certain campuses' extended education funds to the respective campuses' operating fund accounts within the CSU Trust Fund. CSU Long Beach transferred roughly \$11 million, CSU Sacramento transferred \$4.9 million, and San José State transferred \$8.3 million.

In a June 2013 letter to the Legislature, the Chancellor's Office described the impact of the transfer on extended education instructional programs and the use of the transferred funds. The chancellor concluded that there was no measurable impact on extended education instructional programs from the \$63.2 million transfer, although there was a one-time \$23.1 million reduction in fund availability. The chancellor also

stated that the impacts were temporary, given the one-time nature of the balance transfer, and anticipated no lasting impacts on extended education. The chancellor indicated that \$56.9 million (90 percent) of the \$63.2 million was used for instruction and academic support program groups. Instruction programs consist of general academic instruction, preparatory/remedial instruction, instructional information technology, community education instructional services, and nonbaccalaureate vocational and technical instruction. Academic support programs include libraries, museums and galleries, educational media services, support information technology, course and curriculum development, academic administration, and personnel development. The largest expenditure categories were regular salaries and wages (\$38 million), benefits (\$12.1 million), and miscellaneous operating expenses (\$4.5 million).

Campuses Can Improve Their Oversight of Expenditures Paid From the CERF Trust Accounts

Of the 41 self-supported transactions we examined at the three campuses, we were unable to conclude that 10, or 24 percent, were reasonable, allowable, or related to the support and development of self-supported instructional programs.

Of the 41 self-supported transactions we examined at the three campuses, we were unable to conclude that 10, or 24 percent, were reasonable, allowable, or related to the support and development of self-supported instructional programs, primarily because the campuses lacked sufficient documentation. State law and Executive Order 794 require that revenue the CSU campuses receive from extension programs, special sessions, and other self-supported instructional programs be used for the support and development of CSU self-supported instructional programs. As part of our review of these transactions, we observed that the three campuses can improve their development or documentation of policies, procedures, or review processes that govern CERF expenditures.

We reviewed 10 self-supported expenditures totaling \$97,974 that CSU Long Beach made during fiscal years 2007–08 through 2011–12 for contractual services, miscellaneous operations, and compensation. We also performed an additional limited review of three self-supported transfers totaling \$126,486 made out of the CERF trust account. Of the 10 expenditures we reviewed, we were unable to conclude that one of the payments charged to miscellaneous operations was reasonable or allowable. In May 2011 the campus's College of Continuing and Professional Education reimbursed the California State University Long Beach Research Foundation (foundation) \$2,430 for an employee's salary and benefits and \$146 for a 6 percent administrative fee. The College of Continuing and Professional Education's reimbursement to the foundation also included \$13,677 for the salaries and benefits of nine other employees and \$821 in administrative fees.

State regulations require the chancellor and auxiliary organizations, such as the foundation, to enter into a written agreement to identify the functions the auxiliary organization will perform. The written agreement must specify, among other things, the functions the organization is to manage, operate, or administer; and the necessity for the administration of the functions by the organization instead of by the campus under usual state procedures. Executive Order 750 delegates authority and assigns responsibility to the campus president to execute and implement contracts for the performance of services by the campus. Executive Order 750 also reinforces campus and auxiliary organizations' ability to contract with one another.

However, CSU Long Beach could not provide a written agreement between the campus and the foundation describing the work the employees would perform for the College of Continuing and Professional Education or the amount of the administrative fee to be paid. According to the College of Continuing and Professional Education's senior director of finance and business services, when the decision was made in 1999 or 2000 to move a significant number of programs from the foundation to the College of Continuing and Professional Education, some of the employees supporting the programs continued their employment with the foundation. The senior director of finance and business services also stated that the campus kept the foundation as the employees' employer so as not to interfere with the employees' vested retirement. Although the campus may have had good intentions regarding the employees, its actions have resulted in it paying additional costs to employ them because of the 6 percent administrative fee the campus pays the foundation.

The *CERF Program Reinvestment Allocation Guideline* from the Chancellor's Office provides accounting guidelines for campuses when recording program reinvestment allocations. The campuses' continuing education colleges develop and administer special session programs in cooperation with other colleges and departments, which are referred to as campus partners. The fees for the special session programs are shared with or allocated to the campus partners based on partnership agreements. The campuses also allocate fees from Open University to the campus partners because Open University allows nonmatriculated students to enroll in regular state-supported courses on a space-available basis.

CSU Long Beach also could not provide documentation to support two transfers made out of the CERF trust account to the campus partners. CSU Long Beach made one transfer in June 2009, in the amount of \$46,194, to allocate fees from the CERF trust account from fiscal year 2008–09 summer session and Open University courses to several campus partners. The campus made the other

Although the campus may have had good intentions regarding the employees, its actions have resulted in it paying additional costs to employ them because of the 6 percent administrative fee the campus pays the foundation.

transfer in June 2010 in the amount of \$177,400, which included our reviewed transaction of \$466, to allocate fees for a course—Graduate Studies 700. This course is restricted to graduate students who have completed all coursework but who need additional time to complete their thesis or graduate project. The transfer was made from the CERF trust account to several campus partners. However, the campus could not provide partnership agreements or any other documentation to support the campus partners' allocation percentages. Specifically, the College of Continuing and Professional Education's administrative services manager stated that although it does not have documentation to support the percentages, the use of the percentages has been a long-standing practice, and the College of Continuing and Professional Education has never been questioned about them. In addition, the associate vice president and international education dean of the College of Continuing and Professional Education stated that the allocation percentages have been in place for many years and that he was unsure of the historical methodology the campus used to develop them. The campus's absence of supporting documentation for the allocation percentages did not allow us to conclude that these two transactions were reasonable.

Of the 10 expenditures we reviewed at San José State, we were unable to conclude that three were reasonable and allowable or that they related to extended education.

We also reviewed 10 expenditures totaling \$35,525 San José State made during fiscal years 2007–08 through 2011–12 for contractual services, miscellaneous operations, and compensation. As with CSU Long Beach, we performed an additional limited review of three transfers totaling \$290,159 made out of the CERF trust account as well. Of the 10 expenditures we reviewed, we were unable to conclude that three were reasonable and allowable or that they related to extended education. For two expenditures, the campus was unable to provide sufficient documentation that the transactions were for the support and development of extended education instructional programs. The first expenditure was paid in September 2008 to Fisher Scientific Company LLC in the amount of \$936 for lab supplies. The second expenditure was paid in November 2009 to Agilent Technologies in the amount of \$3,257 to purchase two generators. The campus's associate vice president of finance stated that the department responsible for ordering the lab supplies was unable to provide any specific documents to demonstrate the use of the supplies. In addition, the associate vice president of finance stated that the department responsible for ordering the generators could not find any documents or recall any information for this purchase.

We were also unable to conclude that an expenditure paid in October 2008 in the amount of \$5,215 was reasonable and allowable. The campus paid C&S Carpet & Floor Coverings to install a vinyl floor in one of its classrooms. The chair of the department responsible for ordering the flooring stated that she was aware of the restriction on the use of CERF trust account funds

and believed that, because extended education students also use the classroom, it was appropriate to use these funds to replace the flooring. Although we believe it is appropriate to pay a portion of the costs from the CERF trust account, we question the campus's use of the trust account to pay for the full cost of the flooring. As we previously discussed, we would expect the campus to apply the basic cost allocation principles that require all costs be allocated according to the most equitable basis that is practical.

Further, during our review, we found that San José State does not periodically review the process it uses to allocate revenue from special session programs and Open University from the CERF trust account. These funds are used primarily to reimburse the campus's General Fund for the services of its academic affairs, administration and finance, and student affairs divisions, which provide support to extended education instructional courses and programs. In September 2006 San José State's president issued a *funding model* policy that became effective on July 1, 2006; the campus had arrived at the allocation percentages in the funding model policy by using expenditure data from fiscal years 2001–02 through 2005–06.²²

The funding model policy states that the campus president must periodically review the allocation percentages, but it does not define *periodically*. However, San José State has not reviewed the percentages since May 2008. According to San José State's associate vice president of finance, the campus president and chief financial officer recently requested a review of the funding policy, and this review will begin once the campus completes a review of its financial reporting system. The associate vice president of finance could not provide a beginning or an ending date for the funding policy review. Without periodic reviews of the funding policy's allocation percentages, the campus cannot ensure that it transfers the appropriate amount from its CERF trust account to the campus's General Fund to cover the costs of the services the divisions provide to extended education instructional courses and programs.

At CSU Sacramento we reviewed 10 expenditures totaling \$76,760 made during fiscal years 2007–08 through 2011–12 that were for miscellaneous operations, travel, and compensation. We also performed an additional limited review of five transfers totaling \$2,143,150 made out of the CERF trust account. Generally, we found that the expenditures and transfers were reasonable, allowable, and related to the support and development of extended education instructional programs. However, CSU Sacramento was

San José State does not periodically review the process it uses to allocate revenue from special session programs and Open University from the CERF trust account.

²² The funding policy methodology excludes revenues and expenditures for extended education instructional courses and programs that do not result in the students receiving academic credit. Divisions that provide services for noncredit program operations receive direct reimbursements.

unable to provide documentation to support the methodology for the \$1.3 million transfer it made in April 2012 to adjust an allocation for the 2011 summer session fees from the CERF trust account to several campus partners. Specifically, the senior budget planning analyst for the campus's College of Continuing Education could not provide partnership agreements to describe the methodology the College of Continuing Education uses to distribute revenue to the campus partners. The campus's absence of supporting documentation for the methodology did not allow us to conclude that the amounts transferred to the campus partners were reasonable.

We also observed that CSU Sacramento did not have written campus-specific policies related to timekeeping and payroll. Executive Order 1000 delegates the authority and responsibility for effective oversight of all state funds, including internal controls for safeguarding assets and ensuring the reliability of financial reporting, to the campus presidents. According to its payroll manager, CSU Sacramento had a recent management turnover, and she is in the process of creating desk procedures for payroll. She was able to locate an old timekeeper manual from 2005; however, she stated that it will require updating. Without appropriate internal controls, CSU Sacramento is potentially susceptible to fraud, waste, and abuse in these areas of financial management.

Finally, at each campus we were unable to review one transaction that we had selected for review, because each campus stated the documentation for that transaction was not available because of its record retention policies. Although we were unable to conclude that these three transactions were reasonable, allowable, and related to extended education, we did not consider them to be exceptions.

Recommendations

CSU Office of the Chancellor

To ensure that campuses spend their CERF trust account fund balances appropriately, the Chancellor's Office should immediately take the following actions:

- Reinststate its carry-forward fund policy, and starting with fiscal year 2012–13, require campuses to submit spending plans.
- Direct its internal audit staff to periodically review the campuses' extended education course and program expenditures.

San José State

To ensure that the CERF trust account bears a reasonable portion of the campuswide instructional technology upgrade project's costs, San José State should immediately determine the proportionate share of the project cost each stakeholder, including extended education, should bear and, if necessary, transfer funds back to the CERF trust account.

To strengthen its oversight of payments made from the CERF trust account, San José State should immediately take the following actions:

- Establish procedures instructing departments to demonstrate that each payment request is for the support and development of CSU self-supported instructional courses and programs. These procedures should include, at a minimum, the following:
 - A requirement for departments to attach copies of documents such as purchase orders, work orders, and contracts to their requests for payments to demonstrate that direct costs for services or activities benefit self-supported instructional courses and programs; these documents should be easily traceable to those courses and programs.
 - A requirement for departments to demonstrate that they assign indirect costs to self-supported instructional courses and programs according to a methodology that represents a reasonable and equitable distribution.
 - A requirement for departments to retain documentation to support the development of the methodologies they use to distribute indirect costs to self-supported instructional courses and programs.
 - A definition for reasonable and equitable distribution using one of the three common methods identified in the *State Administrative Manual* or methods developed by the campus and approved by the Chancellor's Office.
- Revise its funding model policy to define the term periodically.
- Perform periodic reviews of the allocation percentages in its funding model policy.

CSU Long Beach

To strengthen its oversight of payments made from the CERF trust account, CSU Long Beach should immediately take the following actions:

- Enter into a written agreement with the foundation that specifies, among other things, the functions the foundation is to manage, operate, or administer for the College of Continuing and Professional Education and the necessity for the foundation to administer the functions instead of the College of Continuing and Professional Education.
- Review and document the appropriateness of the campus partners' allocation percentages using current data and, if needed, adjust the percentages.
- Develop and retain partnership agreements that reflect the campus partners' allocation percentages.

CSU Sacramento

To strengthen its oversight of payments made from the CERF trust account, CSU Sacramento should immediately take the following actions:

- Review and document the methodology it uses to allocate revenue to the campus partners.
- Develop and retain partnership agreements that reflect the agreed-upon terms between the College of Continuing Education and campus partners.
- Develop and implement written procedures for payroll.
- Update its timekeeper manual.

Chapter 4

ALTHOUGH CALIFORNIA STATE UNIVERSITY CAMPUSES DID NOT ALWAYS COMPLY WITH EXTENDED EDUCATION CURRICULA AND CERTAIN FACULTY HIRING REQUIREMENTS, THEY DID COMPLY WITH ENROLLMENT REQUIREMENTS

The requirements for establishing curricula for both state-supported and extended education programs that offer academic credit are generally the same; however, two of the three California State University (CSU) campuses we reviewed violated the policy that campuses notify the CSU's Office of the Chancellor (Chancellor's Office) when they convert state-supported degree programs to extended education programs.²³ In addition, CSU Long Beach cannot ensure that the faculty it appoints to teach in self-supported for-credit programs have the appropriate credentials to teach because it does not have procedures for their appointment that are comparable to those it has for instructors who teach in state-supported programs. Also, CSU Sacramento could not demonstrate that it used a pool of available applicants when selecting faculty to teach certain extended education courses, thereby increasing the risk that it does not hire the best-qualified applicants. Finally, our review found that the three CSU campuses we examined complied with the few state laws, regulations, and policies that govern enrollment for extended education.

Although the Curricula Requirements Are Generally the Same for State-Supported Instructional Courses and Programs and for Extended Education, Two Campuses Failed to Comply With Requirements That Are Exclusively for Extended Education

Two of the three campuses we reviewed did not properly notify the Chancellor's Office when converting degree programs from state-supported to self-supported. Further, these two campuses demonstrated weaknesses in their selection and appointment processes for extended education faculty. Specifically, CSU Long Beach does not have procedures for verifying faculty credentials when making extended education appointments, and CSU Sacramento lacked an applicant pool for certain faculty who teach extended education courses.

²³ CSU uses several different terms when referring to extended education, including *continuing education*, *special session*, and *self-support* or *self-supported courses and programs*. We use the term *self-supported* for this report, unless another term was specifically cited in state law or CSU policy.

Curricula Requirements Are Generally the Same for State-Supported and Self-Supported Instructional Courses and Programs

Executive Order 1047 requires that all instruction offered for special sessions be approved under the same procedures used for state-supported programs, and all academic policies governing special sessions must be identical to or established under the same

Executive Order 1047 Requirements for Extended Education Degree Programs

- Appropriations from the State's General Fund must be unavailable or inappropriate.
- The program must be different from state-supported programs operating on campus by at least one of the following:
 - Designed for career enrichment or retraining.
 - Significantly removed from permanent state-supported facilities.
 - Provides students educational or other services at a cost beyond what could be reasonably provided under state support.
- The courses must be presented in a defined time frame.
- The campus must secure all regular campus and system approvals.
- The campus shall notify the Chancellor's Office when it first offers a previously approved state-supported program in self-supported mode.
- The campus shall operate the program in accordance with all appropriate campus and system policies and procedures.
- All instruction offered shall have been approved under the same procedures used for state-supported programs.
- All students in the degree program shall be matriculated.
- The program must be consistent with all applicable policies of the Western Association of Schools and Colleges and other relevant accrediting bodies.
- Courses shall not be offered at times or places that are likely to supplant or limit offerings of the state-supported program.
- Faculty shall be compensated according to approved special session salary schedules.

Source: Executive Order 1047, issued May 5, 2010.

procedures as those governing state-supported programs. The state laws, regulations, policies, and procedures that govern the development of curriculum apply generally in the same manner for state-supported courses and programs and for self-supported courses and programs that allow students to receive academic credit toward a degree. For example, state regulations set forth requirements for undergraduate and graduate degrees, and they are the same for state-supported and self-supported courses and programs. The curriculum for undergraduate degrees typically requires general education-breadth courses and at least 24 semester units in the major. The curriculum for graduate degrees typically requires a minimum of 30 semester units of approved graduate work and completion of a thesis, project, or comprehensive examination. The Board of Trustees of the CSU (board) delegated authority for the development of curricular and instructional plans to the campus presidents. The academic master plan is a comprehensive list of the campuses' academic plans that guide program, faculty, and facility development. Each campus is responsible for updating its academic master plan annually, and the plan is approved by the board.

Two Campuses Failed to Notify the Chancellor's Office When Converting State-Supported Degree Programs to Self-Supported Degree Programs

Executive Order 1047 and its predecessor, Executive Order 802, issued by the Chancellor's Office, established certain requirements for extended education programs (see the text box). One requirement is that campuses notify the Chancellor's Office when they first offer previously approved state-supported degree or credential programs in self-supported mode. According to its assistant vice chancellor of academic programs and faculty development

(assistant vice chancellor), the Chancellor's Office established this requirement to prevent instances of supplanting and to ensure compliance with all applicable laws and policies. Another requirement is that the self-supported programs be different from approved state-supported programs operating on campus in specified ways.

Neither CSU Long Beach nor CSU Sacramento notified the Chancellor's Office before they each converted a state-supported degree program to extended education. CSU Long Beach did not notify the Chancellor's Office before converting its Master of Arts in Dance (MA Dance) program from state-supported to self-supported in the summer of 2009. According to the campus's vice provost of academic affairs and dean of graduate studies, the campus did not make any changes to the MA Dance program other than converting it from state-supported to self-supported. She stated she believes CSU Long Beach did not notify the Chancellor's Office because it already had received approval from the Chancellor's Office in 1997 for the original self-supported version of that program. However, although the campus had previously provided the program as extended education, it offered the MA Dance program as a state-supported program in fiscal years 2007–08 and 2008–09. The campus converted the program back to extended education starting in summer session 2009. According to the assistant vice chancellor, whenever a campus intends to change the support mode of a degree program, the Chancellor's Office requires notification. The assistant vice chancellor also stated that the wording of the executive orders in no way indicates that campuses can switch degree programs from state-supported to self-supported without notifying the Chancellor's Office, even if the campus offered the self-supported program in the past.

Similarly, CSU Sacramento did not notify the Chancellor's Office when it converted its Master of Science in Geology program from state-supported to self-supported for the fall 2011 term. The interim assistant vice president of academic programs and global engagement stated that because there were no changes to the curriculum, modality, or location, and there were no substantive changes requiring approval from the accrediting agency, the campus did not believe the circumstances rose to the level of the notification requirements in Executive Order 1047. However, Executive Order 1047 explicitly requires notification to the Chancellor's Office when previously approved state-supported degree programs are first offered as self-supported programs through special sessions.

Neither CSU Long Beach nor CSU Sacramento notified the Chancellor's Office before they each converted a state-supported degree program to extended education.

By failing to notify the Chancellor's Office that they were converting state-supported programs to self-supported extended education programs, CSU Long Beach and CSU Sacramento did not provide the Chancellor's Office the opportunity to ensure that the campuses were not supplanting state-supported programs with self-supported extended education programs, which would be a violation of California Education Code, Section 89708. However, because of the different interpretations of the term *supplanting* that we discuss in Chapter 1, we cannot conclude that the campuses violated the California Education Code.

In Some Instances, Campuses Did Not Adhere to Certain Hiring Requirements

State law authorizes the board to provide for the governance of each campus's appointees and employees, including appointment, classification, terms, duties, pay, and overtime pay. State law also provides that if any of these provisions is in conflict with a collective bargaining agreement, the provisions of the agreement take precedence over any rules the board establishes. On May 15, 2007, the board's committee on collective bargaining entered into a collective bargaining agreement with the California Faculty Association. The agreement contains provisions that apply to faculty who teach state-supported and certain self-supported programs. However, two of the reviewed campuses did not always comply with requirements for hiring faculty to teach extended education courses.

CSU Long Beach Does Not Have Procedures for Verifying Extended Education Faculty Credentials

Our review found that for the appointment of those instructors who teach self-supported programs, CSU Long Beach does not have procedures that are comparable to those it has for instructors who teach state-supported programs. Executive Order 1047 requires that the academic standards associated with all aspects of special sessions be identical to those of comparable state-supported instructional programs. We consider this requirement for academic standards to include faculty credentials. Article 40 of the collective bargaining agreement entered into between the board and the California Faculty Association governs the appointment of instructional faculty who teach self-supported for-credit programs.

The collective bargaining agreement states that the campus president shall make temporary appointments for faculty who teach self-supported for-credit programs. The board delegated authority for the appointment of personnel to the campus presidents.

CSU Long Beach has established procedures for recruiting and appointing tenured and tenure-track faculty.²⁴ The campus requires applicants to submit a formal letter of application, a curriculum vitae, a copy of an official transcript showing the highest degree attained, letters of recommendation or names of references, evidence of teaching effectiveness such as student and peer evaluations, and evidence of scholarly activities such as copies of journal articles or conference presentations.

CSU Long Beach's senior director of faculty affairs stated that applicants hired through the College of Continuing and Professional Education must submit the same documents as are required for state-supported appointments to the respective college deans at the time of their appointment. The senior director of faculty affairs also acknowledged that the campus does not have a policy that specifically requires this. The campus's Department of Dance did not collect and retain official transcripts, at the time of appointment, for two of the four MA Dance program faculty members whose appointments we examined. The department chair stated that he assumed the College of Continuing and Professional Education, as the group processing the contracts, would request the transcripts. However, the associate dean of College of Continuing and Professional Education stated that although the college has technical oversight of the program, the department chairs are responsible for vetting new faculty hires. Without written procedures that are communicated to all departments and enforced by the College of Continuing and Professional Education, CSU Long Beach cannot ensure that the faculty it appoints to teach self-supported for-credit programs have the appropriate credentials to teach the courses for which they are hired.

CSU Long Beach cannot ensure that the faculty it appoints to teach self-supported for-credit programs have the appropriate credentials to teach the courses for which they are hired.

CSU Sacramento Lacked an Applicant Pool for Hiring Certain Extended Education Faculty

CSU Sacramento did not always adhere to its policy that departments are to select the best-qualified applicants from a pool when making temporary faculty appointments, such as those for self-supported for-credit programs. For one of the extended education programs we reviewed, CSU Sacramento could not demonstrate that it used a pool to select the best-qualified applicants. When it does not follow its faculty appointment policy, CSU Sacramento incurs the risk that it will not hire the best-qualified applicants to teach extended education courses.

²⁴ The collective bargaining agreement states that tenure is the faculty employee's right to continued permanent employment at the campus, except when such employment is voluntarily terminated or is terminated by the employer pursuant to the agreement or law.

For three of the four temporary faculty appointments for courses for the Accelerated Second Bachelor of Science in Pre-Licensure Nursing program that we examined, the campus could not provide evidence that the lecturers were selected from a pool of qualified applicants. According to the chair of the School of Nursing, CSU Sacramento did not maintain an applicant pool for the program because the number of faculty approved by the Board of Registered Nursing who are willing and available to teach courses in the program is limited. The chair also stated that the School of Nursing posted vacancy notices for part-time instructors through the campus's human resources department for the 2011–12 academic year, but it did not receive any applications. The chair stated that, because the School of Nursing did not have a pool of applicants interested in serving as part-time instructors, it made temporary faculty appointments using its full-time tenure-track faculty or part-time clinical faculty who volunteered and were qualified to teach the courses. CSU Sacramento's policy does not identify steps departments should take when they do not have a pool of applicants. To remedy this deficiency, the interim provost and vice president for academic affairs stated that CSU Sacramento will consider expanding the applicant pools for programs, such as nursing programs where the pool can be very limited, by establishing a continuously open vacancy announcement rather than limiting the announcements to a certain time window, as it does now. When CSU Sacramento modifies its recruitment process and enhances its applicant pools, it should be better able to demonstrate that it appoints the best-qualified applicants in accordance with its policy.

Campuses' Enrollment Goals for Extended Education Reflect a Focus on Program Budgets

California State University Undergraduate Admission Priority Order

1. Continuing undergraduate students in good standing.
2. California community college transfer students who have successfully concluded a course of study in an approved transfer agreement program.
3. Other California community college students who have met all transfer requirements.
4. Other qualified transfer students.
5. California residents entering at the freshman or sophomore level.

Source: California Education Code, Section 66202.

Although the Chancellor's Office requires campuses to establish enrollment management plans and it can establish quotas for or limit campus enrollment, these requirements are tied to state funding and typically do not reference extended education enrollment. Campuses do, however, set enrollment goals for extended education based on individual program budgets.

Numerous state laws, regulations, and policies exist related to the enrollment of students in state-supported instructional courses and programs. For example, state law sets priorities that CSU must follow, to the extent practicable, for enrollment planning and admissions at the undergraduate resident student level, as shown in the text box. In addition, state regulations limit

admissions to a campus on the basis of its authorized academic plans and programs, and the number of students for whom facilities and competent staff are available to provide the opportunity for an adequate college education. This same regulation allows the chancellor, under the policy direction of the board, to establish enrollment quotas for the CSU in general and for any specific campus for any of the following categories: academic area, class level, program, and student residence status. In March 2000 the board adopted the California State University Enrollment Management Policy and Practices, which was subsequently amended in September 2002. The policy requires each campus to develop and adopt a strategic, long-range enrollment management plan to address issues such as student outreach, recruitment, admission, retention, graduation, and qualitative measures of student success. The campuses' plans should also incorporate other information, such as projections of student demand. The Chancellor's Office's director of enrollment management services stated that the campuses' enrollment management plans typically do not include reference to extended education programs or self-supported degree programs because the targets in their enrollment management plans are directly tied to funding from the State for resident full-time equivalent students.

We identified few state laws, regulations, and policies that specifically govern enrollment for extended education, as shown in Appendix A. Officials for the three campuses we reviewed stated that their enrollment management plans for extended education focus primarily on ensuring that the campus offers self-supported instructional courses and programs. The dean of the College of Continuing Education at CSU Sacramento stated that the college will offer a program only if the enrollment meets or exceeds the number of students it needs for the program to break even. Similarly, the associate vice president and dean of CSU Long Beach's College of Continuing and Professional Education stated that the college's enrollment targets are done program by program with the goal of breaking even and achieving the future sustainability of the program. Finally, the associate dean of San José State University's College of International and Extended Studies stated that it determines the total cost of the program and tuition rates and then determines the number of students it needs to ensure that it covers all program costs. As we discuss in Chapter 2, each campus's extended education revenues have generally exceeded their expenditures. In addition, our review of six extended education programs at the three campuses found that those students we selected for review who were enrolled in the programs met the admissions requirements for the programs.

We identified few state laws, regulations, and policies that specifically govern enrollment for extended education.

Recommendations

CSU Long Beach

To help the Chancellor's Office enforce state law that prohibits supplanting state-supported courses and programs, CSU Long Beach should immediately remind all relevant employees to notify the Chancellor's Office before converting state-supported degree programs to self-supported degree programs.

To minimize the risk that it appoints faculty who are not qualified to teach self-supported for-credit programs, CSU Long Beach should immediately establish and implement procedures comparable to those it uses for recruiting and appointing faculty to teach state-supported courses and programs.

CSU Sacramento

To help the Chancellor's Office enforce state law that prohibits supplanting state-supported courses and programs, CSU Sacramento should immediately remind all relevant employees to notify the Chancellor's Office before converting state-supported degree programs to self-supported degree programs.

To ensure that it appoints the best-qualified applicant from a pool of applicants as its policy requires, CSU Sacramento should immediately follow through on its plans to establish a continuously open vacancy announcement for programs where the pool can be very limited.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA
State Auditor

Date: December 10, 2013

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For questions regarding the contents of this report, please contact Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

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Appendix A

STATEWIDE CRITERIA APPLICABLE TO EXTENDED EDUCATION AT THE CALIFORNIA STATE UNIVERSITY

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor to review the extended education systemwide policies and procedures of the California State University (CSU) with regard to student fees, student enrollment, course curriculum, and faculty credentials and salaries, and to determine whether these policies and procedures are consistent with applicable laws.

Table A identifies the statewide criteria that we considered relevant to our examination of the five key areas identified by the audit committee. The criteria in the table include state laws, state regulations, and executive orders issued by the CSU's Office of the Chancellor. We also included the collective bargaining agreement between CSU and the California Faculty Association.

Table A
Statewide Criteria Applicable to Extended Education at the California State University

EXTENDED EDUCATION COMPONENT	CALIFORNIA EDUCATION CODE SECTION	CALIFORNIA CODE OF REGULATIONS TITLE AND SECTION	OFFICE OF THE CHANCELLOR EXECUTIVE ORDER NUMBER AND TITLE	COLLECTIVE BARGAINING AGREEMENT SECTION NUMBER
Student fees	Section 89721, Revenues Sections 89700-89711, Fees, Rents, and Charges Sections 89300, et seq., Student Body Organizations Section 66057, Year-Round Academic Programs	Title 5, Section 41802, et seq., Refund of Fees Including Nonresident Tuition Title 5, Section 41800, et seq., Payment of Fees	1054, the California State University (CSU) Fee Policy, effective January 14, 2011 1047, Special Sessions, effective May 5, 2010 942, Convenience Fee, effective April 25, 2005 802, Special Sessions, effective January 31, 2002 795, Procedures Governing Self-Supporting Programs Outside the State of California, Conducted Through the Continuing Education Revenue Fund or Local Trust Accounts, effective November 12, 2001 794, Financial Management of Extended Education, effective November 12, 2001	Not applicable

EXTENDED EDUCATION COMPONENT	CALIFORNIA EDUCATION CODE SECTION	CALIFORNIA CODE OF REGULATIONS TITLE AND SECTION	OFFICE OF THE CHANCELLOR EXECUTIVE ORDER NUMBER AND TITLE	COLLECTIVE BARGAINING AGREEMENT SECTION NUMBER
Student enrollment	Section 89708, Fees, Rents, and Charges Section 89270, Entry-Level Master's Nursing Programs Sections 66750, et seq., Cross-Enrollment	Title 5, Section 40700, Matriculation Title 5, Section 40651, Administrative Procedures Title 5, Section 40650, Establishment of Enrollment Quotas Title 5, Section 40411, Conferral of Degree Upon Completion of Degree Requirements Title 5, Section 40407 - 40407.1, Special Session Credit - Matriculation Title 5, Section 40300, Establishment and Maintenance Title 5, Section 40202, Special Session Enrollment in State-Supported Regular Curriculum Offerings	805, Policy Governing the Enrollment of Non-Matriculated Students in CSU State-Support Courses and in CSU Self-Support Special Session Courses, effective February 14, 2002	Not applicable
Faculty compensation	Section 89500, et seq., Personnel Section 89030, et seq., Powers of the Trustees	Title 5, Section 42801, Classification of Employees for Pay Plan Purposes Title 5, Section 40510, et seq., Graduate Degrees Title 5, Section 40500, et seq., Bachelor of Arts Degree: Required Curriculum Title 5, Section 40407, et seq., Extension Credit Title 5, Section 40100, et seq., Authorization to Establish Curricula	1047, Special Sessions, effective May 5, 2010 569, Salaries for Extension and Special Session (Other Than Summer Session) Faculty, effective July 1, 1991	2007–2010 and 2012–2014 Collective Bargaining Agreement Between the CSU Board of Trustees and the California Faculty Association: Article 40, Extension For Credit Employment, Appendix C, Salary Schedule*
Faculty credentials	Section 89500, Personnel	Title 5, Section 42801, Classification of Employees for Pay Plan Purposes	1047, Special Sessions, effective May 5, 2010 569, Salaries for Extension and Special Session (Other Than Summer Session) Faculty, effective July 1, 1991	2007–2010 and 2012–2014 Collective Bargaining Agreement Between the CSU Board of Trustees and the California Faculty Association, Article 12, Appointment, Article 40, Extension For-Credit Employment
Course curriculum	Section 89708, Self-Support Programs Section 89030, Powers of the Trustees	Title 5, Section 40510, et seq., the Master's Degree Title 5, Section 40500, et seq., Bachelor of Arts Degree: Required Curriculum Title 5, Section 40407, Extension Credit Title 5, Section 40202, Special Session Enrollment in State Supported Regular Curriculum Offerings Title 5, Section 40200, Special Sessions Authorization Title 5, Section 40102, Procedure for Establishing Curricula Title 5, Section 40100, et seq., Authorization to Establish Curricula	1048, The Early Start Program, effective June 2010 1047, Special Sessions, effective May 5, 2010 806, Certificates and Certificate Programs, effective February 14, 2002 795, Procedures Governing Self-Supporting Programs Outside the State of California, Conducted Through the Continuing Education Revenue Fund or Local Trust Accounts, effective November 12, 2001 255, Provisions Governing Implementation of the Continuing Education Unit Within the California State University and Colleges, effective October 8, 1976	Not applicable

Sources: California State Auditor's analysis of the California Education Code, Title 5 of the California Code of Regulations, executive orders issued by the Chancellor's Office of the California State University (CSU), and the collective bargaining agreement between CSU and the California Faculty Association.

* The 2007–2010 collective bargaining agreement was extended to 2012 when the next collective bargaining agreement was implemented.

Appendix B

CERTAIN DEMOGRAPHICS FOR STATE-SUPPORTED AND EXTENDED EDUCATION COURSES AT THE CALIFORNIA STATE UNIVERSITY

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor to review the California State University (CSU) to determine the following, to the extent possible, for extended education courses offered systemwide and for a selection of campuses:

- The number and type of graduate and undergraduate state-supported courses offered.
- The number and type of extended education courses offered at each campus and the associated fees for those courses.²⁵
- The total number of CSU state-supported courses that have a corresponding or equivalent extended education course, including the number of courses offered in each program and the number of students enrolled.²⁶

Table B on the following page identifies the number of courses, sections, and student seats for state-supported and extended education courses provided during fiscal years 2007–08 through 2011–12 at the three campuses we examined as part of our audit: CSU Long Beach, CSU Sacramento, and San José State University. We did not conduct a systemwide analysis because each CSU campus has flexibility as to how they use the data, which would have required us to follow up with each campus independently. We also categorized the self-supported courses as undergraduate or graduate.

²⁵ We present data related to average fees for extended education courses in Table 7 on page 46 of this report.

²⁶ We present the number of student seats instead of a discrete number of students enrolled. The “student seat” numbers presented here count each student once for every course in which he or she received a mark, such as a letter grade, a withdrawal, or an incomplete. Therefore, one student would account for five student seats if that student received a mark in five courses during a fiscal year.

Table B
Total State-Supported and Self-Supported Courses, Sections, and Student Seats for Three California State University Campuses
Fiscal Years 2007–08 Through 2011–12

	FISCAL YEARS														
	2007–08			2008–09			2009–10*			2010–11*			2011–12		
	COURSES	SECTIONS	STUDENT SEATS†	COURSES	SECTIONS	STUDENT SEATS	COURSES	SECTIONS	STUDENT SEATS	COURSES	SECTIONS	STUDENT SEATS	COURSES	SECTIONS	STUDENT SEATS
State-Supported															
California State University (CSU), Long Beach															
Undergraduate	2,868	12,379	334,073	2,797	11,717	332,858	2,741	10,900	304,425	2,707	10,527	291,128	2,724	10,929	304,396
Graduate	1,217	2,944	25,573	1,215	3,027	26,895	1,225	2,928	26,145	1,215	2,803	24,035	1,220	2,708	23,525
CSU Sacramento															
Undergraduate	2,118	9,080	243,476	2,128	8,793	251,402	2,099	8,378	249,587	2,041	7,741	232,966	2,021	7,820	243,843
Graduate	912	2,296	21,964	890	2,235	21,968	785	1,986	21,113	736	1,674	16,687	697	1,592	16,453
San José State University (San José State)															
Undergraduate	2,290	10,501	257,068	2,340	10,762	268,195	2,282	9,882	233,653	2,300	9,916	231,358	2,278	10,624	249,339
Graduate	882	2,603	37,295	882	2,645	37,473	839	2,387	32,066	813	2,106	24,922	837	2,177	24,804
Self-Supported*															
CSU Long Beach															
Undergraduate	205	411	7,095	225	401	6,517	251	444	6,872	478	908	19,049	470	876	17,385
Graduate	146	261	5,243	163	323	5,832	171	340	6,228	227	369	6,652	198	342	6,163
CSU Sacramento															
Undergraduate	161	229	2,913	124	221	3,593	136	253	3,850	243	396	7,909	245	403	7,959
Graduate	180	306	4,812	164	290	4,538	136	272	4,544	160	283	3,866	174	292	4,173
San José State															
Undergraduate	161	275	3,778	175	302	4,088	196	318	4,817	305	631	11,053	301	582	9,659
Graduate	239	603	9,732	248	636	10,901	244	699	12,611	286	779	14,270	262	723	13,369

Source: California State Auditor's (state auditor) analysis of data obtained from CSU's Common Management System. Please refer to the Introduction's Scope and Methodology for the state auditor's assessment of the reliability of this data.

Note: We included summer session as the first term of a fiscal year and spring semester as the last term. This approach mirrors the definition of college year found in the CSU's Statistical Abstract to July 2010, the latest edition.

* Campus data indicate that the majority of the increase for extended education from fiscal year 2009–10 to fiscal year 2010–11 is attributable to campuses moving their summer sessions from state-supported to self-supported beginning in 2010.

† The "student seats" numbers presented on this table count each student once for every course in which he or she received a mark, such as a letter grade, a withdrawal, or an incomplete. Therefore, one student would account for five student seats if that student received a mark in five courses during a fiscal year.


THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

November 12, 2013

CHANNEL ISLANDS

CHICO

Ms. Elaine M. Howle
California State Auditor
Bureau of State Audits
621 Capitol Mall, Suite 1200
Sacramento, California 95814

DOMINGUEZ HILLS

EAST BAY

FRESNO

Dear Ms. Howle:

FULLERTON

HUMBOLDT

The California State University (CSU) welcomes the opportunity to respond to the draft audit report "California State University's Extended Education: It is Unclear Whether Supplanting Occurred and Campuses Did Not Always Document Their Adherence to Laws, Policies, and Procedures." We appreciate the time and effort dedicated by the Bureau of State Audits in conducting this audit.

LONG BEACH

LOS ANGELES

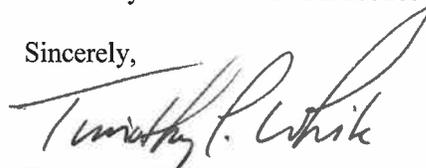
Enclosed is our response to the recommendations made to the California State University Office of the Chancellor by your office.

MARITIME ACADEMY

MONTEREY BAY

Sincerely,

NORTHRIDGE



POMONA

Timothy P. White
Chancellor

SACRAMENTO

SAN BERNARDINO

TPW/cs

SAN DIEGO

Enclosure

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS

CSU Chancellor's Office Response to Recommendations

CHAPTER 1

Recommendation

To help the Legislature clarify its intent regarding supplanting as identified in the California Education Code, Section 89078, the Chancellor's Office should immediately begin working with the Legislature and its staff to that end.

CSU Response

We concur with the recommendation and will initiate the conversation with the Legislature.

Recommendation

Until the Legislature clarifies its intent regarding California Education Code, Section 89708, the Chancellor's Office should immediately finalize its executive order pertaining to extended education. This guidance should identify appropriate oversight mechanisms for ensuring campuses' compliance with this law.

CSU Response

We concur and will finalize and issue the extended education executive order.

Recommendation

Within six months of the date the Legislature clarifies its intent regarding California Education Code, Section 89708, the Chancellor's Office should develop and issue final guidance to campuses regarding supplanting, including identifying appropriate oversight mechanisms for ensuring campuses' compliance with this law.

CSU Response

We concur and will develop and issue final guidance once the Legislature clarifies its intent regarding "supplanting."

CHAPTER 2

Recommendations

To effectively monitor and ensure that the campuses set self-supported fees in accordance with state law and Executive Order 1054, the Chancellor's Office should immediately take the following actions:

- Require campus chief financial officers to develop, and presidents to consider, the statement of revenues and expenditures described in Executive Order 1054 before making a determination on self-supported extended education program fees.

CSU Response

We concur. CSU will revise Executive Order 1054 to clarify that campus presidents make a determination on Category IV and V fees after consideration of revenue and expenditure statements reviewed and approved by the campus chief financial officers. However, CSU believes the initial revenue and expenditure plan should be developed by the Dean of Extended Education (or designee) because the knowledge required for assessing the cost of academic instruction and materials associated with extended education courses is more appropriately assigned to program providers.

- Instruct campuses to report annually a complete inventory of their self-supported extended education fees, including past and current fee rates, the total revenue collected for each fee, and the remaining balance of revenue collected for each fee.

CSU Response

The CSU needs additional time to evaluate the recommendation and the best way to implement it. We will provide further information in our 60-day follow up response.

- Direct its internal audit staff to periodically conduct audits of the campuses' self-supported extended education fees to determine the appropriateness of the fees, including the methodology the campuses use to set the fees and the inventory they report to the Chancellor's Office.

CSU Response

We concur and will ask the internal auditor to establish a schedule and scope for the periodic audit of the campuses' self-supported extended education fees as recommended.

CHAPTER 3

Recommendations

To ensure that campuses spend their CERF trust account fund balances appropriately, the Chancellor's Office should immediately take the following actions:

- Reinstatement of its carry-forward policy, and starting with fiscal year 2012/13, require campuses to submit spending plans.

CSU Response

We concur and will recommence excess carry-forward reports from campuses beginning with excess balances reported for the 2012/13 fiscal year.

- Direct its internal audit staff to periodically review the campuses' extended education course and program expenditures.

CSU Response

We concur and will ask the internal auditor to establish a schedule and scope for the periodic review of campuses' extended education course and program expenditures.



OFFICE OF THE PRESIDENT
CALIFORNIA STATE UNIVERSITY, LONG BEACH
1250 BELFLOWER BOULEVARD
LONG BEACH, CALIFORNIA 90840-0115
562/985-4121

November 12, 2013

Ms. Elaine M. Howle
State Auditor
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, California 95814

Dear Ms. Howle:

California State University, Long Beach welcomes the opportunity to respond to the draft audit of the California State University's Extended Education audit. The Bureau of State Audits' time and efforts dedicated to this comprehensive review is appreciated.

The auditor's recommendations will be helpful to the university in our efforts to improve our policies and procedures. We will begin implementation of some recommendations immediately and will be acting on others as soon as feasible.

The attached document provides responses to each of the auditor's recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Para", with a long horizontal flourish extending to the right.

Donald J. Para
Interim President

Enclosure

California State University, Long Beach Response to Recommendations

Chapter 2:

To ensure that it sets self-supported fees for extended education in accordance with state law and Executive Order 1054, CSU Long Beach should immediately take the following actions:

- Prepare a statement of revenues and expenditures for the Bachelor of Science in Engineering Degree Completion Program for Electrical Engineering program we discuss in this report and, if necessary, increase or decrease that program's future fees to appropriate levels.
- Revise its methodology for calculating the direct allocations component of its fees for extended education programs and base the calculation on direct costs that can be readily assigned to the programs and indirect costs that have been identified in its approved cost allocation plan.
- Retain documentation to support the direct allocations it charges extended education programs.
- Prepare and retain the market studies to justify the appropriateness of its fee increases.
- Conduct a study to determine the appropriate program reinvestment allocation percentage to apply to the individual fee it sets for each extended education program.
- Retain documentation to support the established program reinvestment allocation percentage.
- Revise its student fee policy to specifically require the development, appropriate consideration, and retention of statements of revenues and expenditures when establishing or adjusting future fees for self-supported extended education courses and programs.
- Revise its student fee policy to include its revised methodology for calculating the direct allocation component of the fee and its procedure for applying the established program reinvestment allocation percentage to the individual fees it sets for each self-supported extended education program.

We concur with each of the recommendations. The College of Continuing and Professional Education believes it has followed the procedures set forth in Executive Order 1054 and has set reasonable fees. Nevertheless, we will implement the recommendations to further improve operations and accountability.

Chapter 3:

To strengthen its oversight of payments made from the CERF trust account, CSU Long Beach should immediately take the following actions:

- Enter into a written agreement with the California State University Long Beach Research foundation that specifies, among other things, the functions the foundation is to manage, operate, or administer for the College of Continuing and Professional Education and the necessity for the foundation's administration of the functions instead of the College of Continuing and Professional Education.
- Review and document the appropriateness of the campus partners' allocation percentages using current data and, if needed, adjust the percentages.
- Develop and retain partnership agreements that reflect the campus partners' allocation percentages.

We concur with each of the recommendations.

Chapter 4:

To help the Chancellor's Office enforce state law that prohibits supplanting state-supported courses and programs, CSU Long Beach should immediately remind all relevant employees to notify the Chancellor's Office before converting state-supported degree programs to self-supported degree programs.

We concur. We will immediately remind all relevant employees to notify the Chancellor's Office before converting state-supported degree programs to self-supported degree programs.

To minimize the risk that it appoints faculty who are not qualified to teach self-supported for-credit programs, CSU Long Beach should immediately establish and implement procedures comparable to those it uses for recruiting and appointing faculty to teach state-supported courses and programs.

We concur. We will immediately establish and implement relevant procedures comparable to those used for recruiting and appointing faculty to teach state-supported courses and programs.

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November 12, 2013

Ms. Elaine Howle
State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

SUBJECT: Campus Response to Recommendations of 2012-113
"California State University's Extended Education: It is Unclear Whether
Supplanting Occurred and Campuses Did Not Always Document Their
Adherence to Laws Policies, and Procedures"

Dear Ms. Howle:

Enclosed is California State University, Sacramento's response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kaye Milburn, Director of Auditing Services, at (916) 278-7439.

Sincerely,

A handwritten signature in black ink, appearing to read "Alexander Gonzalez".

Alexander Gonzalez
President

Enclosure

California State University, Sacramento Response to Recommendations

Chapter 2:

To ensure that it sets self-supported extended education fees in accordance with state law and Executive Order 1054, CSU Sacramento should immediately take the following actions:

- Discontinue its practice of allowing the College of Continuing Education to submit fee proposals for ranges of fees instead of individual fees for extended education courses and programs.

We concur.

- Discontinue its practice of approving fee proposals for ranges of fees instead of individual fees for extended education courses and programs.

We concur.

- Prepare statements of revenues and expenditures for the ongoing programs we discuss in this report, and, if necessary, increase or decrease those programs' future fees to appropriate levels.

We concur. The College of Continuing Education at CSU Sacramento has one ongoing program discussed in this report – MS in Geology. The MS in Geology is currently not admitting any more students and is in the process of offering the last few courses to students that need to finish. There are only a handful of students currently taking the final classes and the culminating requirement, which will be offered in spring 2014. Depending on student progress, spring 2014 may be the last term. It may be that there will be one or two students that need to enroll for thesis credits beyond spring 2014. The College of Continuing Education will prepare statements of actual revenues and expenditures for the MS Geology program in addition to the remaining projected revenues and expenditures. We will not increase the fees for the MS in Geology, regardless of the results. The cost per unit was set prior to students registering for the program and based on expected enrollments. If there is a positive surplus, it will be reviewed with the College of Natural Sciences and Mathematics and the Department of Geology on campus. It will then be decided whether the final culminating fees need to be reduced.

- Revise its student fee policy to specifically require the development, appropriate consideration, and retention of statements of revenues and expenditures when establishing or adjusting future fees for extended education courses and programs.

We concur. CSU Sacramento will revise its student fee policy.

Chapter 3:

To strengthen its oversight of payments made from the CERF trust account, CSU Sacramento should immediately take the following actions:

- Review and document the methodology it used to allocate revenue to the campus partners.
- Develop and retain partnership agreements that reflect the agreed upon terms between the College of Continuing Education and the campus partners.
- Develop and implement written procedures for payroll.
- Update its timekeeper manual.

We concur with each of the recommendations and have already begun work on implementing them.

Chapter 4:

To help the Chancellor's Office enforce state law that prohibits supplanting state-supported courses and programs, CSU Sacramento should immediately remind all relevant employees to notify the Chancellor's Office before converting state-supported degree programs to self-supported degree programs.

We concur and will remind all relevant employees of the need to notify the Chancellor's Office before converting state-support degree programs to self-supported degree programs.

To ensure that it appoints the best qualified applicant from a pool of applicants as its policy requires, CSU Sacramento should immediately follow through on its plans to expand the applicant pools for programs where the pool can be very limited by establishing a continuously open vacancy announcement.

We concur.

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**SAN JOSÉ STATE
UNIVERSITY**

November 12, 2013

Office of the President

Mohammad H. Qayoumi, PhD
President

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To: Elaine M. Howle, California State Auditor

From: Mohammad H. Qayoumi, President 

Subject: Response to CSU Extended Education audit

Enclosed please find San José State University's complete written response to your draft report of the California State University Extended Education audit.

Thank you for your attention to this matter.

**WRITTEN RESPONSE TO THE RECOMMENDATIONS
FOR SAN JOSE STATE UNIVERSITY
IN THE DRAFT REPORT OF
THE CALIFORNIA STATE UNIVERSITY'S EXTENDED EDUCATION AUDIT**

Chapter 2:

To ensure that it sets self-supported fees for extended education in accordance with Executive Order 1054, San José State should immediately take the following actions:

- Prepare statements of revenues and expenditures for the programs we discuss in this report, and, if necessary, increase or decrease those programs' future fees to appropriate levels.
- Revise its fee proposal instructions to specifically require the development, appropriate consideration, and retention of statements of revenues and expenditures when establishing or adjusting future fees for each extended education course and program.
- Discontinue its practice of setting its summer session fees for extended education courses and programs based on the fees set by the Chancellor's Office for state-supported summer session courses and programs.

We concur with each of the recommendations.

Chapter 3:

To ensure that the CERF trust account bears a reasonable portion of the Next Gen Technology Project's costs, San José State should immediately determine the proportionate share of the project cost each stakeholder, including extended education, should bear and, if necessary, transfer funds back to the CERF trust account.

We concur. Because of the nature of the NextGen project being a one time fixed cost project, the revised methodology will need to correspond to that nature. Final analysis of the allocation ratio may not find any of the basic pro-rata methods described in State Administrative Manual to be appropriate. However, the chosen allocation model will be documented and available for review.

To strengthen its oversight of payments made from the CERF trust account, San José State should immediately take the following actions:

- Establish procedures instructing departments to demonstrate that each payment request is for the support and development of CSU self-supported instructional courses and programs. These procedures should include, at a minimum, the following:

- A requirement for departments to attach copies of documents such as purchase orders, work orders, and contracts, to their requests for payments to demonstrate that direct costs for services or activities benefit self-supported instructional courses and programs and that are easily traceable to those courses and programs.

We concur. The University is already in compliance with all CSU policies, but will establish the noted procedures.

- A requirement for departments to demonstrate that they assign indirect costs to self-supported instructional courses and programs according to a methodology that represents a reasonable and equitable distribution.

We concur and will establish such a procedure.

- A requirement for departments to retain documentation to support the development of the methodologies they use to distribute indirect costs to self-supported instructional courses and programs.

We concur in concept and will establish a procedure; however, the University plans to retain the documentation at the University level as opposed to the department level.

- A definition for reasonable and equitable distribution using one of the three common methods identified in the State Administrative Manual or methods developed by the campus and approved by the Chancellor's Office.

We concur and will establish a procedure that includes a definition for reasonable and equitable distribution.

- Revise its funding model policy to define the term periodically.

We concur. The University will revise its funding model policy to define the term "periodically."

- Perform periodic reviews of the allocation percentages in its funding model policy.

We concur. The University is currently reviewing the allocation percentages in its funding model policy and will continue to perform periodic reviews in the future.

cc: Members of the Legislature
Office of the Lieutenant Governor
Little Hoover Commission
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press