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January 13, 2016

Dr. Willie Hagan, President
California State University, Dominguez Hills
1000 East Victoria Street
Carson, CA 90747

Dear Dr. Hagan:

Subject: Audit Report 15-54, Scholarships, California State University, Dominguez Hills

We have completed an audit of *Scholarships* as part of our 2015 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

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

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

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

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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SCHOLARSHIPS

**California State University,
Dominguez Hills**

Audit Report 15-54
November 2, 2015

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative and financial controls related to scholarships and to ensure compliance with relevant governmental regulations, Office of the Chancellor (CO) directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls in effect as September 25, 2015, taken as a whole, were not sufficient to meet the objectives of this audit.

In general, the audit revealed that campus and the California State University, Dominguez Hills Foundation (Foundation) controls and procedures for the scholarship function require attention. Specifically, we noted that roles and responsibilities for scholarship administration were not clearly defined, which resulted in an inability to clearly articulate campus processes and a lack of knowledge regarding which individual was assigned to certain tasks. In addition, we noted that the campus was not requiring documentation from donors confirming the intent of scholarship donations. We also found that the gift and stewardship policy referenced by university advancement (UA) had not been updated since 2002.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. SCHOLARSHIP ADMINISTRATION

OBSERVATION

The roles and responsibilities for scholarship administration were not clearly defined.

The campus utilized a decentralized process for scholarship administration that crossed several divisions on the campus, including UA, the Foundation, financial aid, and various academic departments. Due to the lack of centralized oversight, we noted several instances in which responsibilities for important functions were unclear. Specifically:

- The campus could not readily identify who was responsible for administering scholarships in the academic departments or other areas that made award decisions.
- The campus did not provide to scholarship administrators in academic departments written guidelines regarding best practices for award committee composition, proper documentation of decision rationale, and records retention for student-submitted documents.
- The campus was not centrally monitoring scholarship fund balances to ensure that dormant accounts were justifiable and allowed only in accordance with donor intent.

RECOMMENDATION

We recommend that the campus:

- a. Consider creating a master list of all scholarship accounts controlled and administered by the campus that includes the name(s) of the individuals responsible for administration of each one.
- b. Review the current process for making scholarship award decisions in the academic departments and consider creating written guidelines for areas including, but not limited to, the composition of and process for convening a committee to make award decisions, proper documentation protocol to support award decisions, and retention of student-submitted records.
- c. Appoint an area to take responsibility for ensuring that scholarship accounts with no award activity can reasonably justify the lack of disbursements.

MANAGEMENT RESPONSE

We concur.

- a. The campus shall create a master list of all scholarship accounts controlled and administered by the campus that includes the name(s) of the individuals responsible for administration of each one.

- b. The campus shall review the current process for making scholarship award decisions in the academic departments and will create written guidelines for areas including, but not limited to, the composition of and process for convening a committee to make award decisions, proper documentation protocol to support award decisions, and retention of student-submitted records.
- c. The campus shall appoint an area to take responsibility for ensuring that scholarship accounts with no award activity can reasonably justify the lack of disbursements.

Expected completion date: May 2016

2. SCHOLARSHIP DONOR DOCUMENTATION

OBSERVATION

The campus process to establish and record donor intent for scholarship gifts needed improvement.

We found that the campus did not require the use of a gift agreement or other documentation signed by donors to confirm the purpose and restrictions for scholarship fund donations. We reviewed 20 scholarships and found that the campus could not locate, or had not required, a gift agreement for 15 of them.

Signed confirmation of donor intent increases assurance that donor funds will be administered in accordance with the terms and conditions established by the donor.

RECOMMENDATION

We recommend that the campus establish policies and procedures to ensure that all scholarship fund donations are confirmed and supported by a gift agreement or other documentation that is signed by the donors.

MANAGEMENT RESPONSE

We concur. The campus shall establish policies and procedures to ensure that all scholarship fund donations are confirmed and supported by a gift agreement or other documentation that is signed by the donors.

Expected completion date: May 2016

3. GIFT AND STEWARDSHIP POLICY MANUAL

OBSERVATION

The gift and stewardship policy manual utilized by UA needed updating.

According to our review, the manual was last updated in 2002. Although much of the information language in this manual is still relevant, we noted several sections that either conflicted with current campus policy or were no longer relevant.

Maintaining an updated policy manual reduces the risk of noncompliance with policies and procedures approved by the president and helps to prevent confusion about departmental responsibilities with regard to gifts and stewardships.

RECOMMENDATION

We recommend that the campus update and implement its gift and stewardship policy manual.

MANAGEMENT RESPONSE

We concur. The campus shall update and implement its gift and stewardship policy manual.

Expected completion date: May 2016

GENERAL INFORMATION

BACKGROUND

There are three main types of scholarships administered at the California State University (CSU): those that are funded by donor endowments; those that are annual or one-time gifts from donors; and those that are funded through departmental or university funds that may be used for these purposes, such as grants. Campus UA offices work with outside donors to establish the endowments and gifts, and the funds are generally held and administered by the campus foundation or another appropriate auxiliary organization until it is determined that the funds can be made available for an award.

The award decision process is generally conducted by the campus, which uses the information UA provides regarding scholarship eligibility requirements and selects the most qualified students that meet these requirements.

All scholarship awards must be coordinated with and reported to the campus financial aid department to ensure compliance with federal guidelines that dictate total award amounts based on student need and cost of attendance limits.

California State University, Dominguez Hills (CSUDH) utilizes a decentralized process for its scholarships process. Instead of giving a central entity oversight over the entire scholarships process, various functional areas are involved and responsible for their own parts of the process. UA works with donors to establish and set up scholarships, and the Foundation is responsible for holding the funding. Individual departments or colleges on campus are responsible for the advertising and awarding of each individual scholarship. Once a student has been selected and deemed eligible for a particular scholarship, the departments or colleges notify the Foundation, which in turn works with both financial aid and accounting services to ensure that students receive their scholarships.

SCOPE

We visited the CSUDH campus from September 8, 2015, through September 25, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether the operational, administrative, and financial controls are in place and operative at the CSUDH. In order to capture the entirety of the two academic years of scholarship awards, the audit focused on procedures in effect from July 1, 2013, through September 25, 2015.

Specifically, we reviewed and tested:

- Processes to ensure appropriate segregation between the donation, fund administration, and award-decision processes, and the eventual disbursement to the students.
- Processes to maximize scholarship fund access to all eligible students.
- Processes to ensure that awards are made only to eligible students, and that decisions are made on an objective basis using identifiable and, where possible, quantifiable criteria for the individual scholarship.

- Measures to ensure that eligibility requirements do not include restrictions that are prohibited under relevant government laws or regulations.
- Processes to ensure that funds are paid in the correct amount and to the correct student account.
- Processes to ensure that scholarship awards are reported to financial aid.

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

Our testing and methodology was designed to provide a review of key operational, administrative, and financial controls. It included detailed testing on a limited number of scholarships to ensure that scholarship availability was broadly communicated to ensure reasonable access, and that funds were administered in accordance with university policy and established donor directives. In addition, we reviewed award recipient records to ensure compliance with established scholarship eligibility factors.

CRITERIA

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

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

- United States Department of Education *2015-16 Federal Student Aid Handbook*
- 5 California Code of Regulations §42500(d), *Functions of Auxiliary Organizations*
- Executive Order (EO) 676, *Delegation of Gift Evaluation and Acceptance to Campuses*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- Academic Affairs Technical Letter 2004-15, *Student Financial Aid Administration*
- Proposition 209/California Constitution Article 1, Section 31
- Government Codes §13402 and §13403

AUDIT TEAM

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