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February 24, 2016

Dr. Dianne F. Harrison, President
California State University, Northridge
18111 Nordhoff Street
Northridge, CA 91330

Dear Dr. Harrison:

Subject: Audit Report 15-55, Scholarships, California State University, Northridge

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,
Northridge**

Audit Report 15-55
January 28, 2016

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of the 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, except for the effect of the observations described below, the operational, administrative, and financial controls as of October 30, 2015, taken as a whole, were sufficient to meet the objectives of this audit.

In general, the audit did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the operational, administrative, and financial controls over scholarships. Overall, we found that controls over the scholarship process were sound and employees were knowledgeable in carrying out their job duties. However, our review did identify opportunities for improvement in some areas, such as campuswide scholarship awarding guidelines, award disbursement authorizations, and documentation of donor restrictions.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. AWARDING DECISION GUIDELINES

OBSERVATION

The campus process for making scholarship award decisions in the academic areas needed improvement.

We found that award-decision responsibility for scholarships specific to majors or subject areas was distributed to the appropriate academic college or department, and most academic areas followed common practices for scholarship administration. However, the campus did not have written guidelines on scholarship awarding practices, and we noted the following inconsistencies in the award-decision process:

- The composition of and process for convening a scholarship committee to make award decisions. Although we did not note any instances of a single incumbent making unilateral awarding decisions, the manner in which committee membership was determined and formalized varied. Some academic areas had a formal scholarship committee with members who were elected and rotated after a specific term, while others had a very informal process that consisted of faculty volunteers with unspecified service terms. We also found that one department had various informal area groups that made scholarship awarding decisions but were not formally recognized as a scholarship committee.
- The use of scholarship applications and dissemination of scholarship information. We found that in general, the academic areas reviewed required candidates to submit an application to be considered. However, we found that one department did not always require the submission of an application, as some scholarships were awarded based on faculty nominations or recommendations. Further, we found that this same department did not widely communicate information regarding the availability of its assigned scholarships.
- Documentation and record retention. The academic areas varied in their ability to provide evidence of completion of the various processes involved in scholarship awarding. For example, we found that although it appeared that the colleges/departments had a process to verify eligibility factors directly in the student administration system or via other media, some colleges/departments did not retain evidence showing that the information was reviewed. Moreover, some colleges/departments did not retain adequate documentation to justify the final award decisions. Also, we found inconsistencies in the record retention practices, as some colleges/departments retained scholarship documentation for several years, while others discarded the documentation after the awarding process.

Effective and consistent processes for scholarship awarding enhance the campus' ability to demonstrate fair and objective funding decisions.

RECOMMENDATION

We recommend that the campus review the current process for making scholarship award decisions in the colleges/academic departments and develop written guidelines that include, but are not limited to, the composition of and process for convening a committee to make award decisions, use of scholarship applications, and the retention of records.

MANAGEMENT RESPONSE

We concur. The campus will review the current process for making scholarship award decisions in the colleges/academic departments, as well as other non-academic areas, and will create written guidelines that will include, but not be limited to, the composition of and process for convening a committee to make award decisions, use of scholarship applications, and retention of records.

Expected completion date: June 30, 2016

2. AWARD DISBURSEMENT AUTHORIZATIONS

OBSERVATION

The scholarship disbursement process needed improvement.

We found that the authorized signer forms for three scholarship accounts held with the California State University, Northridge Foundation (Foundation) needed to be updated to reflect current scholarship disbursement approvers.

Specifically, for three of the 15 scholarship accounts we reviewed, the individual(s) authorizing the scholarship disbursements did not always have signature authority on file with the Foundation. Although the individuals approving the scholarship disbursements were appropriate college/department administrators, the Foundation's authorized signer forms had not been updated in several years to account for changes in college/department personnel.

Updated and current authorized signer forms improve accountability of funds and decrease the risk of unauthorized and disallowable expenditures.

RECOMMENDATION

We recommend that the Foundation update scholarship account authorized signer forms to reflect current authorized signers and remind the appropriate Foundation personnel to process scholarship disbursements in accordance with signature forms on file.

MANAGEMENT RESPONSE

We concur. The Foundation will review and update account authorized signer forms to reflect current authorized signers and will remind the appropriate Foundation personnel to process scholarship disbursements in accordance with signature forms on file.

| Expected completion date: April 30, 2016

3. DONOR RESTRICTIONS

OBSERVATION

The Foundation did not always execute or obtain donor agreements for restricted scholarship funds.

We reviewed 15 scholarship accounts and found that the campus could not locate signed donor agreement forms for two of them. Instead, the campus referenced a summary of eligibility requirements listed on the Foundation account applications, documents that presumably reflected the donor intent but did not include donor acknowledgement. Further, scholarships from one of these two accounts were not being awarded in accordance with the eligibility summary on the Foundation account application, the only available reference for the scholarship. For this account, we found that the Foundation account application form specified that the scholarships be given out to freshmen. However, the scholarship was advertised as open to all levels, and we noted instances in which a junior and a senior were awarded funds from the scholarship. Without the original gift agreement and any amendments, we could not reconcile the discrepancies with the account application or confirm whether these funds were correctly awarded.

Executed and distributed donor agreements reduce the risk that scholarship administrators will violate the terms and restrictions established or intended by the donor.

RECOMMENDATION

We recommend that the Foundation review and document the appropriate course of action to take in order to ensure that the donor's intent is met for the two scholarship accounts noted above.

MANAGEMENT RESPONSE

We concur. The Foundation will review and document the appropriate course of action for the two scholarship accounts noted above.

| Expected completion date: March 31, 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 university advancement (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.

At California State University, Northridge (CSUN), the scholarship process is decentralized. Each academic area is responsible for administering the scholarships awarded by their respective areas, while the financial aid and scholarship department is responsible for administering campuswide scholarships, such as university scholars and presidential scholars. Scholarship funds/accounts are primarily held with the Foundation and the University Corporation auxiliaries. Once scholarship disbursements have been approved by the respective scholarship administrator at the college/department or financial aid level, the request for funding is sent to the respective auxiliary and transferred to financial aid for posting on the student's account.

SCOPE

We visited the CSUN campus from October 5, 2015, through October 30, 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 CSUN. 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 October 30, 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 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
- University Advancement *Gift Agreement Workflow*
- CSUN Foundation *General Spending Guidelines*

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