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February 24, 2016

Dr. William A. Covino, President  
California State University, Los Angeles  
5151 State University Drive  
Los Angeles, CA 90032

Dear Dr. Covino:

**Subject: Audit Report 15-56, Scholarships, California State University, Los Angeles**

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,  
Los Angeles**

Audit Report 15-56  
January 13, 2016

## 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, except for the effect of the observations described below, the operational, administrative, and financial controls as of October 15, 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 enforcement of compliance with payment processing procedures and revisions to the records retention policy.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. AWARD DISBURSEMENT AUTHORIZATION

#### OBSERVATION

Scholarship disbursement processes needed improvement.

Scholarship awards were determined in the academic departments and processed for payment in financial aid (FA). Procedures allowed the departments to authorize payments on a Scholarship Transaction Form (STF) or, for longer lists of awards, on a roster that also included the information necessary for FA to accurately process the award. Both the STF and the roster were required to be authorized by an individual on the signature card for that particular scholarship account.

We reviewed 30 disbursements from 15 scholarships and found that:

- The campus was unable to locate signed STFs for five scholarship awards.
- Six transactions were paid from STFs signed by individuals not listed on the signature card.
- Seven transactions were paid from a roster that did not include the approval of an authorized signer.

Proper authorization of scholarship disbursements improves accountability and allows appropriate administration of scholarship funds.

#### RECOMMENDATION

We recommend that the campus remind the appropriate FA personnel to process scholarship disbursements in accordance with payment processing procedures.

#### MANAGEMENT RESPONSE

The appropriate personnel will be reminded of the payment processing procedures.

Implementation date: April 30, 2016

### 2. RECORDS RETENTION

#### OBSERVATION

The campus scholarship policy, AP 800, did not adequately address records retention for the scholarship administration processes, and academic departments did not always retain sufficient documents to support the award decision.

Specifically, we noted that AP 800 required the campus to retain a list of all applicants that included notations regarding each applicant's status (recipient, alternate, or unqualified), but did not address the retention time frame or any other documentation requirements. The Instructions for Scholarship Review Committees included more detailed process requirements, including use of a scoring/grading sheet, but did not address retention of the documentation supporting award decisions.

We reviewed 15 scholarship academic department processes, and we found that six had not retained documentation to support the entire awarding process for scholarships.

Retention of disbursement documentation provides accountability for financial activity and enhances perception of good stewardship of donor funds.

**RECOMMENDATION**

We recommend that the campus:

- a. Update AP 800 or other campus policies to include records retention requirements for scholarship administration, including the types of documents that must be retained and the retention schedules.
- b. Communicate the provisions of AP 800 or other campus policies to awarding departments.

**MANAGEMENT RESPONSE**

Campus policies will be updated to reflect the records retention requirements, and the updated policies will be communicated to the awarding departments.

Implementation date: April 30, 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 FA department to ensure compliance with federal guidelines that dictate total award amounts based on student need and cost of attendance limits.

California State University, Los Angeles (CSULA) uses a collaborative process to administer scholarships. Instead of giving a central entity oversight over the entire scholarship process, various functional areas are involved and responsible for specific parts of the process. UA works with donors to establish and set up scholarships, and The CSULA Foundation is responsible for holding the funds. FA advertises active scholarships online and accepts and screens applications. Individual departments or colleges on campus are responsible for the selection and awarding of each individual scholarship. Once a student has been selected and deemed eligible for a particular scholarship, the departments or colleges notify FA, which processes the award, and student financial services posts the disbursement.

### SCOPE

We visited the CSULA campus from September 8, 2015, through October 15, 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 CSULA. 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 15, 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 FA.

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
- Campus Administrative Procedure 218, *Auxiliary Accounts*
- Campus Administrative Procedure 800, *Scholarship Administration*

## AUDIT TEAM

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Senior Audit Manager: Ann Hough  
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