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February 2, 2016

Dr. Susan Martin, Interim President  
San José State University  
One Washington Square  
San José, CA 95192

Dear Dr. Martin:

**Subject: Audit Report 15-57, Scholarships, San José State University**

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

## **San José State University**

Audit Report 15-57  
December 14, 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 of October 2, 2015, taken as a whole, were not sufficient to meet the objectives of this audit.

In general, the audit revealed that the campus controls and procedures for the scholarship function require attention. Specifically, we noted that roles and responsibilities for scholarship administration were not clearly defined. The Tower Foundation (Tower) and the financial aid and scholarship office (FASO) performed some similar duties in the administration of scholarship funds, but there was no clear policy explaining this division or setting criteria for deciding which entity would administer each scholarship. Further, we were unable to obtain a comprehensive list of scholarships offered on the campus, and our review indicated that up to 130 scholarships were missing from the lists provided by Tower and FASO during the audit. In addition, we noted inconsistencies in the scholarship-awarding process, including room for improvement in the areas of eligibility communication, use of applications, award committee composition, segregation of duties, and records retention. We also noted that fiscal controls could be improved, including a clarification of the policy regarding signature verification when disbursement requests are received by FASO and the policy regarding scholarship fund accounting.

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.

We found that the campus process for scholarship administration was decentralized and included several divisions on campus, including Tower, FASO, and various academic departments. We noted several instances in which responsibilities for important functions were unclear. Specifically:

- Tower and FASO performed some similar duties in that both held and processed payment of scholarship funds, but there was no clear policy explaining this division or setting criteria for deciding which entity would administer each scholarship.
- The campus was unable to readily provide a comprehensive list of scholarship accounts. We performed a reconciliation of the scholarship lists provided by both Tower and FASO to PeopleSoft accounting records, and we found that 130 scholarship accounts, with a total balance of \$255,165, did not appear on either list.
- Of the 130 scholarship accounts that did not appear on the lists, we reviewed 23 accounts with high or unusual balances. We confirmed with the campus that the accounts were associated with scholarships, and that there had been no substantial activity in these accounts since at least fiscal year 2012/13.

Clear identification and documentation of roles and responsibilities for scholarship administration provides greater assurance that all funds will be distributed in accordance with donor specifications and intent.

#### RECOMMENDATION

We recommend that the campus, in conjunction with Tower:

- a. Assign one entity responsibility for holding and processing payment of scholarship funds, or establish a policy that clearly defines the criteria for assigning specific scholarships to either Tower or FASO.
- b. Establish procedures to ensure that all scholarships can be readily identified in a comprehensive list.
- c. Establish procedures for the review of fund activity and balances.

#### MANAGEMENT RESPONSE

We concur. We will implement compliance actions in conjunction with Tower to:

- a. Assign one entity responsibility for holding and processing payment of scholarship funds, or establish a policy that clearly defines the criteria for assigning specific scholarships to either Tower or FASO.
- b. Establish procedures to ensure that all scholarships can be readily identified in a comprehensive list.
- c. Establish procedures for the review of fund activity and balances.

All three programs will be in place by May 18, 2016.

## 2. AWARDING DECISION PROCESS

### OBSERVATION

The campus process for making scholarship award decisions needed improvement.

We reviewed the awarding-decision records for 25 scholarship recipients from 13 selected scholarships and noted inconsistencies in the following:

- Communication of scholarship opportunities. Mechanisms for advertising scholarship availability ranged from personal emails to selected student groups to postings on the campus website. We also noted three instances in which the availability of information provided to students was inconsistent with the provisions in the original gift agreement.
- Use of scholarship applications. We noted inconsistencies in the format and delivery of the applications; in the type of information required on the applications; and in the decision as to whether the completion of an application was mandatory to receiving an award.
- The composition of and process for convening a committee to make award decisions. The manner in which committee membership was determined and formalized varied across departments, from a single incumbent making primary decisions to formal deliberation among multiple committee members.
- Process controls. Duties were not always adequately segregated, and some scholarship administrators were able to review applications, determine final awardees, and authorize disbursements.
- Retention of records. The departments varied in their ability to justify in reasonable detail that eligibility requirements were met and verified and the reasons for selecting one student over another for an award. We were unable to obtain full documentation of the awarding process for nine of the 13 scholarships reviewed.

Effective 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 FASO and the academic departments and consider developing written guidelines to address areas including, but not limited to, communication of scholarship opportunities, use of applications, award committee composition, process controls, and records retention.

**MANAGEMENT RESPONSE**

We concur. We will review the process for scholarship-award decisions in FASO and the academic departments and develop the necessary written guidelines to address areas such as communication of scholarship opportunities, use of applications, award committee composition, process controls, and records retention.

This will be completed by March 31, 2016.

**3. SCHOLARSHIP PAYMENT PROCESSING**

**OBSERVATION**

Scholarship payment processing by FASO needed improvement.

We found that:

- Award requests from academic departments for scholarship funds held at FASO were not subject to review to determine whether the requester was authorized to initiate disbursements.
- Fund accounting practices were inconsistent, and the campus did not have a policy to explain the administrative discrepancies. Most scholarships were administered within separate funds set up for each individual scholarship, but others were administered through commingled accounts. We noted three instances in which a commingled fund was used for disbursements despite the fact that the requestor listed the distinct fund on the disbursement request.

Strong payment processing controls increase the likelihood that awards will be made only to qualified students in the appropriate amount and from the proper funding source.

**RECOMMENDATION**

We recommend that the campus:

- a. Establish procedures to ensure that scholarship disbursements in FASO are properly reviewed for authorized signers.
- b. Establish procedures that clearly define fund accounting procedures for scholarship funds, including situations in which the use of a commingled fund is appropriate.

**MANAGEMENT RESPONSE**

We concur. We will implement compliance actions to:

- a. Establish procedures to ensure that scholarship disbursements in FASO are properly reviewed for authorized signers.
- b. Establish procedures that clearly define fund accounting procedures for scholarship funds, including situations in which the use of a commingled fund is appropriate.

These new procedures will be finalized and implemented by May 18, 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 San José State University (SJSU), the scholarship administration process is divided between Tower, FASO, and campus departments. Tower is responsible for the receipt of donor endowments and gifts for scholarships and for disbursement of certain scholarship funds. Similarly, FASO is responsible for the administration of certain scholarship funds, but also for maintaining the scholarship database, promoting and awarding scholarships, and ensuring the timely and accurate posting of all scholarships into student accounts. Academic departments are responsible for advertising, reviewing applications, and selecting awardees for the scholarships attached to their departments or specialties.

### SCOPE

We visited the SJSU campus from September 8, 2015, through October 2, 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 SJSU. 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 2, 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 1000, *Delegation of Fiscal Authority and Responsibility*
- 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
- Integrated California State University Administrative Manual § 3103.03, *Disbursements – General*
- SJSU Trust Fund Guidelines
- SJSU Fund Types Guidelines

## AUDIT TEAM

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