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February 24, 2016

Dr. Horace Mitchell, President
California State University, Bakersfield
9001 Stockdale Highway
Bakersfield, CA 93311

Dear Dr. Mitchell:

Subject: Audit Report 15-58, Scholarships, California State University, Bakersfield

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,
Bakersfield**

Audit Report 15-58
December 18, 2015

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 November 13, 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. However, our review did identify opportunities for improvement in some areas, such as improved clarification of scholarship administration roles and responsibilities, including oversight of the scholarship fund balances; administration and oversight of scholarship gift agreements; and establishment of policies and procedures to verify scholarship recipient eligibility.

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 process for scholarship administration was decentralized and included several divisions on campus, including university advancement, the California State University, Bakersfield Foundation (Foundation), the office of financial aid and scholarships (OFAS), and various academic departments. We found that there were no established policies and procedures that clearly defined responsibilities for important functions. For example:

- Scholarship account balances were not monitored to ensure that account activities and balances were accurate and that dormant accounts were justifiable and allowed only in accordance with donor intent. We noted two scholarship accounts that had a total deficit balance of \$158,000 as of June 30, 2015, due to awards promised and disbursed from an account with insufficient funds.
- Academic departments varied in their ability to justify in reasonable detail the reasons for selecting one student over another for an award. We were unable to obtain full documentation of the awarding process for 24 of the 35 scholarship awards we reviewed.
- Processes for determining awardees varied from utilizing a holistic approach to utilizing specific rubrics because written guidelines regarding best practices were not provided to the academic areas making award decisions.

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 the Foundation, establish policies and procedures that clearly identify who has responsibility for important functions including, but not limited to, oversight of account activities and balances, record retention, and award decision processes.

MANAGEMENT RESPONSE

The campus, in conjunction with the Foundation, will establish policies and procedures that identify who has responsibility for scholarship administration functions, including oversight of account activities, balances, record retention, and award decision processes.

The expected completion date is May 1, 2016.

2. SCHOLARSHIP ESTABLISHMENT

OBSERVATION

Administration of scholarship gift agreements establishing the purpose and restrictions of scholarship funds needed improvement.

Although the campus had a policy requiring donor- and management-signed gift agreements for scholarship donations, we found that eight of the 21 scholarships we reviewed did not comply with the policy. Instead, the scholarships were administered using information in internal campus memos and/or letters, informal correspondence with the donor, and gift agreements that included the purpose and restrictions but were not signed by the donor.

Additionally, we found that gift agreement reviews needed improvement. We identified three agreements for older scholarships that included provisional requirements inconsistent with prohibitions under Proposition 209, passed in 1996, which amended the California Constitution to prohibit public institutions from discriminating on the basis of race, gender, or ethnicity. The campus had not determined the course of action necessary to reconcile the donor's direction in the gift agreement with state constitutional changes. Furthermore, one of the three still advertised a prohibited eligibility category (sex) in the summary provided to student applicants.

Inadequate review and retention of records establishing administrative requirements for scholarships increases the risk that the campus will violate the terms and restrictions established by the donor and exposes the campus possible negative public scrutiny.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation:

- a. Consult with general counsel to determine whether gift agreements or other governing documents for the eight scholarships in question need to be re-established.
- b. Establish procedures to review agreements and governing documents to ensure that they are in accordance with the provisions of Proposition 209 and the related state constitutional changes.

MANAGEMENT RESPONSE

- a. The Foundation will consult with general counsel to determine whether gift agreements or other governing documents for the eight scholarships in question need to be re-established.

The expected completion date is April 1, 2016.

- b. The campus, in conjunction with the Foundation, will establish procedures regarding agreement and governing document review that ensures compliance with Proposition 209 and related state constitutional changes.

The expected completion date is May 1, 2016.

3. ELIGIBILITY CRITERIA

OBSERVATION

The campus did not have established policies and procedures to ensure that awardees met eligibility criteria.

Although the scholarship administration system was programmed to identify eligible applicants, we found that there were no established policies and procedures to ensure that awardees selected by academic areas were within the eligible applicant pool.

Review of eligibility criteria increases 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 develop and document policies and procedures for ensuring that scholarship awardees meet eligibility criteria in accordance with donor intent.

MANAGEMENT RESPONSE

The campus will develop and document policies and procedures that will ensure the scholarship awardees meet eligibility criteria in accordance with donor intent.

The expected completion date is May 1, 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, Bakersfield (CSUB), the scholarship administration process is divided between UA, the Foundation, OFAS, and campus departments. UA is responsible for philanthropic fund-raising, and the Foundation is responsible for the receipt of donor endowments and gifts for scholarships and reimbursement of scholarship funds to the campus. OFAS is responsible for advertising, maintaining the scholarship administration system, and ensuring the timely and accurate posting of all scholarships into student accounts. Academic departments are responsible for reviewing applications and selecting awardees for the scholarships related to their departments or specialties.

SCOPE

We visited the CSUB campus from October 19, 2015, through November 13, 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 CSUB. 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 November 13, 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 1031, *Systemwide Records/Information Retention and Disposition Schedules Implementation*
- 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
- CSUB Foundation *Gift Processing Procedure*
- CSUB Foundation *Endowment and Gift Agreements*

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