December 9, 2015

Dr. Jeffrey D. Armstrong, President  
California Polytechnic State University, San Luis Obispo  
One Grand Avenue  
San Luis Obispo, CA 93407

Dear Dr. Armstrong:

Subject: Audit Report 15-53, Scholarships, California Polytechnic State University, San Luis Obispo

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 Polytechnic State University,
San Luis Obispo

Audit Report 15-53
October 30, 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 as of August 28, 2015, taken as a whole, were sufficient to meet the objectives of this audit.

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 function were sound, and employees were knowledgeable in carrying out their job duties. We did note an opportunity to improve the campus process for making award decisions in the college departments.

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 departments needed improvement.

Award-decision responsibility for scholarships specific to majors or specialties was distributed to the appropriate academic departments. Financial aid provided these departments with detailed summaries of available scholarships, including specific eligibility requirements and limitations. In addition, financial aid provided lists of all students eligible for each scholarship based on available quantitative data, such as grade point average and major, as well as any other obtainable and relevant information, such as measures of financial need and county of residence.

We reviewed the award-decision process in the academic departments and noted inconsistencies in the following:

- The composition of and process for convening a committee to make award decisions. Although we did not note any instances of a single incumbent acting alone in the process, the manner in which committee membership was determined and formalized varied across departments. Some had one person who made preliminary decisions and vetted them with several other faculty members, and others had formal committees that met after careful preparation, for example.

- Use of scholarship applications. The list provided by financial aid allowed departments to consider all eligible students, but several departments supplemented their process with applications to gather information necessary for specialized eligibility requirements. We noted inconsistencies in the format and delivery of the applications, type of information required on the applications, and decision as to whether or not the completion of an application was mandatory to receive an award.

- Retention of records. The departments varied in their ability to justify the reasons for selecting one student over another for an award. In addition, departments differed in the degree to which they retained documents that contained personal information about students.

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 academic departments and consider developing 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 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 retention of records.

Anticipated implementation date: December 31, 2015
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 Polytechnic State University, San Luis Obispo (Cal Poly SLO), financial aid provides administrative oversight of the scholarship process. Once available funds are identified and transferred from the Cal Poly SLO Foundation (Foundation), financial aid implements a process to inform academic colleges and departments of available funds and monitor the progression of the award decisions to eventual payment to student accounts.

SCOPE

We visited the Cal Poly SLO campus from August 17, 2015, through August 28, 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 Cal Poly SLO. 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 August 28, 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

AUDIT TEAM

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