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February 22, 2016

Dr. Hobson Wildenthal, President *ad interim*  
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of Scholarships as part of our fiscal year 2014 and 2015 Audit Plans, and the report is attached for your review. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. The objective of this audit was to perform an operational risk based audit of the scholarships process to validate that adequate controls existed over the scholarship process.

Overall, we found that improvements are needed in the administration of scholarships. The attached report details recommendations that will improve processes and enhance compliance with various policies and procedures.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Though management is responsible for implementing the course of action outlined in the response, we will follow up on the status of implementation subsequent to the anticipated implementation dates. We appreciate the courtesies and considerations extended to us during our engagement. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens  
Institutional Chief Audit Executive

*UT Dallas Responsible Parties:*

Dr. Abby Kratz, Associate Provost  
Dr. Kimberly Laird, Associate Vice President and Controller  
Ms. Beth Tolan, Director of Financial Aid  
Ms. Cheryl Friesenhahn, Director of Financial Services

*Members of the UT Dallas Institutional Audit Committee:*

External Members:

Mr. Bill Keffler  
Mr. Ed Montgomery  
Ms. Julie Knecht  
Dr. Inga Musselman, Acting Provost  
Dr. Calvin Jamison, Vice President for Administration  
Mr. Terry Pankratz, Vice President for Budget and Finance  
Mr. David Crain, Vice President and Chief Information Officer  
Dr. Bruce Gnade, Vice President for Research  
Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer  
Dr. Gene Fitch, Vice President for Student Affairs  
Mr. Timothy Shaw, University Attorney

*The University of Texas System:*

System Audit Office

*State of Texas Agencies:*

Legislative Budget Board  
Governor's Office  
State Auditor's Office  
Sunset Advisory Commission



## Executive Summary

### **Scholarships, Report No. 1617**

**Audit Objective and Scope:** The objective of this audit was to perform an operational risk based audit of the scholarships process to validate that adequate controls existed over the scholarship process. Our scope covered FY 2014 and 2015 operations.

The following is a summary of the audit recommendations by risk level. See Appendix A for additional details.

Recommendation	Risk Level	Estimated Implementation Date
(1) <i>Develop Uniform Methodology for Awarding Scholarships</i>	High	1(a)(b) – September 30, 2016 1(c) – September 30, 2018
(2) <i>Ensure Completeness and Accuracy of Required IRS Tax Reporting</i>	High	Implemented January 2016
(3) <i>Implement Budgetary Controls</i>	Medium	September 30, 2018
(4) <i>Transition to an Electronic Scholarship Appointment Form</i>	Medium	September 30, 2016
(5) <i>Develop Process for Monitoring Enrollment Changes for Scholarship Recipients</i>	Low	Implemented Fall 2015
Prior Audit Recommendations to Update Policies and Website	Low	September 30, 2016
<b>Responsible Vice President:</b> <ul style="list-style-type: none"> <li>• Dr. Inga Musselman, Acting Provost (Recommendations 1, 3 – 5, prior recommendations)</li> <li>• Mr. Terry Pankratz, Vice President for Budget and Finance (Recommendation 2)</li> </ul>	<b>Responsible Parties:</b> <ul style="list-style-type: none"> <li>• Dr. Abby Kratz, Associate Provost (Recommendations 1, 3)</li> <li>• Ms. Beth Tolan, Director of Financial Aid (Recommendations 1, 4, and 5)</li> <li>• Ms. Cheryl Friesenhahn, Director of Financial Services (Recommendation 2)</li> </ul>	
<b>Staff Assigned to Audit:</b> Ali Subhani, IT Audit Manager and Project Lead, CIA, CISA, GNSA; Polly Atchison, Audit Manager, CPA, CIA; Colby Taylor, IT Staff Auditor; Ashley Mathew, Staff Auditor; Hiba Ijaz, Staff Auditor		



## Table of Contents

Background .....	4
Audit Objective .....	4
Scope and Methodology.....	4
Audit Results and Management’s Responses.....	6
Audit Recommendations .....	6
(1) <i>Develop Uniform Methodology for Awarding Scholarships</i> .....	6
(2) <i>Ensure Completeness and Accuracy of Required IRS Tax Reporting</i> .....	8
(3) <i>Implement Budgetary Controls</i> .....	9
(4) <i>Transition to an Electronic Scholarship Appointment Form</i> .....	10
(5) <i>Develop Process for Monitoring Enrollment Changes for Scholarship Recipients</i> .....	11
Status of Prior Audit Recommendations.....	12
Conclusion .....	14
Appendix A: Risk Definitions .....	15
Appendix B: Scholarships Awarded .....	16



## Background

UT Dallas has historically had a decentralized process for awarding scholarships. In general, scholarships that do not specify a particular major or course of study as part of the criteria are awarded by the University Scholarship Committee. The scholarships that are more specific to a particular course of study are awarded by departmental scholarship committees. All scholarship awards are routed through either the Graduate, Undergraduate or School Dean for approval before being submitted to Financial Aid.

The scholarships awarded by the University Scholarship Committee, along with some of the scholarships awarded by the departmental committees, are advertised on the Financial Aid Office [website](#). Other scholarships awarded are advertised on the department, school and/or faculty member web pages.

In June 2015, Dr. Abby Kratz, Associate Provost, was appointed by the Provost to lead a new office overseeing institutional scholarships. The Office of Institutional Scholarship Administration will provide oversight and accountability over scholarship awards, with additional focus on endowed scholarships. The office will provide a comprehensive link between all of the university offices that award scholarships and ensure campus-wide compliance with various policies and procedures.

The total dollar amount of scholarships awarded during academic year (AY) 2014 was \$68,762,116.<sup>1</sup> The majority of scholarships are provided to students at the undergraduate level. Overall, a significant percentage of scholarships are funded through designated funds, with the School of Engineering and Computer Science receiving the majority of scholarship funds. See Appendix B for detailed scholarship information.

## Audit Objective

The objective of this audit was to perform an operational risk based audit of the scholarships process to validate that adequate controls existed over the scholarship process.

## Scope and Methodology

The scope of this audit was fiscal year 2014 and 2015 operations, and our fieldwork concluded on September 24, 2015. To satisfy our objectives, we performed the following:

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<sup>1</sup> This amount does not include any waivers that may have been applied to students account as result of receiving scholarships.



- Gained an understanding of the scholarship award process by interviewing various individuals on campus regarding their scholarship awarding processes and reviewing documents, laws, and policies and procedures related to scholarships. We also benchmarked with other universities to determine their processes.
- Gained an understanding of budgetary controls that were in place specific to scholarships.
- Reviewed Education Code, Title 3, Chapter 54.213 Scholarship Student and tested for compliance with requirements.<sup>2</sup>
- Reviewed IRS requirements<sup>3</sup> for issuance of tax forms for eligible students and tested for compliance.
- Determined if information technology controls, such as appropriate user access, were in place.
- Performed data analysis procedures to identify:
  - Scholarship awards that may have being awarded in violation of the Texas Education code.
  - Errors in the preparation of required 1098-T tax forms.
  - Students that did not have required documentation such as test scores at the time they were awarded scholarships.
- Tested a sample of scholarships to determine compliance with applicable UT Dallas, State, and other policies, including the following:
  - Written criteria for the scholarship award exists.
  - The scholarship was advertised to the public.
  - Competitive guidelines were followed.
  - A selection criteria was followed for the scholarship.
  - Awards were made in compliance with UTD policies and procedures.
  - The departments are retaining student scholarship awarding records.
  - The award was properly authorized?

Where applicable, we conducted our examination in accordance with the guidelines set forth in The Institute of Internal Auditor's *International Standards for the Professional Practice of Internal Auditing*. The *Standards* set criteria for internal audit departments in the areas of independence, professional proficiency, scope and performance or audit work, and management of the internal auditing department.

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<sup>2</sup> <http://www.statutes.legis.state.tx.us/Docs/ED/htm/ED.54.htm#54.213>

<sup>3</sup> <http://www.irs.gov/pub/irs-pdf/p970.pdf>



## Audit Results and Management's Responses

### Controls

Our audit work indicated that the following controls currently exist:

- University-wide policies to manage the scholarship process have been developed by the Provost's Office.
- The Financial Aid Office is adequately monitoring for compliance with Texas Education Code requirements related to the maximum number of individuals that can receive competitive scholarship waivers.
- The scholarship processes for the Naveen Jindal School of Management and the School of Natural Science and Mathematics were formalized with written policies and procedures.
- The ability to award scholarships within the PeopleSoft application was appropriately being restricted to individuals whose job duties included disbursing Financial Aid.

### Audit Recommendations

*Priority Findings – UT System:* A UT System priority finding is defined by the UT System Audit Office as: “an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”<sup>4</sup> We have **no UT System Priority Findings** resulting from this audit.

However, although the above controls are in place, opportunities exist to enhance the scholarship process by implementing the recommendations outlined below.

#### (1) **Develop Uniform Methodology for Awarding Scholarships** Risk Rating: **High**★

As described in the follow-up section on page 11, a previous audit of scholarships recommended centralizing the process for awarding and handling scholarships and fellowships. We again noted the following opportunities to enhance the scholarship process:

- There is no common scholarship application that can be utilized by students to apply for the different scholarships that are offered at the institution. Additionally, the vast majority of scholarship applications are still paper based. Without a common application, students are required to complete a separate application for each scholarship they would like to apply for, and this may result in a negative experience for the student. Additionally, paper-based applications increase the

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<sup>4</sup> The appendix defines the risk levels for all internal audit recommendations.



amount of work that must be completed by staff once the application has been received, since the data has to be entered in some central repository for analysis. Best practices would suggest implementing a process that would improve the student experience and cut down on the manual data entry that is required by staff.

- There is no university-wide schedule or standardized deadlines related to scholarship processing and awarding. As a result, scholarships can be applied to a student's account at any time during the semester. This results in pressure on the Financial Aid department as they are forced to adjust student accounts retroactively in order to avoid compliance violations

**Recommendation:** Consideration should be given to:

- (a) Developing a common scholarship application that can be utilized by students across the institution. Additionally, transitioning to an electronic application would help reduce the need for manual data entry and analysis of potential scholarships recipients by staff.
- (b) Transitioning to uniform deadlines for scholarship processing.
- (c) Ensuring that scholarships are only awarded through official university recognized committees.

***Management's Responses:***

- (a) *An electronic template for scholarship applications will be made available as a core for application to each scholarship. Wherever possible, fields within the application will be electronically populated from information in the Student System to simplify completion. A simplified common application for ALL scholarships, as suggested, would create problems for scholarship committees that are dependent on the application for information regarding specific qualifications dictated by donor wishes or committee decisions regarding qualification criteria.*

*Estimated Date of Implementation: September, 2016*

*Person Responsible for Implementation: Beth Tolan, Director of Financial Aid*

- (b) *Deadlines for scholarship processing will be established in cooperation with the Office of Financial Aid.*

*Estimated Date of Implementation: September, 2016*

*Person Responsible for Implementation: Abby Kratz, Director, Institutional Scholarship Administration*



- (c) *Most scholarships are now awarded through official university recognized committees. A tool will be developed or adopted which all scholarship committees will be required to use to document the processes and decisions through which any scholarship is awarded and to ensure compliance with established deadlines.*

*Estimated Date of Implementation: September, 2018*

*Person Responsible for Implementation: Abby Kratz, Director, Institutional Scholarship Administration*

(2) **Ensure Completeness and Accuracy of Required IRS Tax Reporting**

Risk Rating: **Medium** ★

According to IRS guidelines,<sup>5</sup> an institution must file an IRS form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*. Under the guidelines, "The withholding rate is 14% on taxable scholarship and fellowship grants paid to nonresident aliens temporarily present in the United States in "F," "J," "M," or "Q" nonimmigrant status. Payments made to nonresident alien individuals in any other immigration status are subject to 30% withholding." An individual is considered "a nonresident alien unless.... they meet either the green card test or the substantial presence test for the calendar year" for tax purposes<sup>6</sup>.

During tax year 2014 (January 1–December 31), we noted that compliance with IRS guidelines could be improved as the institution currently does not have a process in place to determine if 1042-S forms should be generated for individuals that are in nonimmigrant types other than F, J M or Q. Not having such a process in place increases the risk on noncompliance with tax regulations.

**Recommendation:** Consideration should be given to implementing a reporting process that would allow for accurate and complete tax reporting that is mandated by IRS regulations.

*Management's Response: We agree, and the recommendation has already been implemented.*

*Estimated Date of Implementation: Implemented as of January 2016*

*Person Responsible for Implementation: Cheryl Friesenhahn, Director of Financial Services*

<sup>5</sup> <http://www.irs.gov/pub/irs-pdf/p515.pdf>

<sup>6</sup> <http://www.irs.gov/pub/irs-pdf/p519.pdf>



**(3) Implement Budgetary Controls**

Risk Rating: **Medium**★

Section 2.16 of the UTD Budget Policy <sup>7</sup> states that, “*Student Information System items post without regard to budget funding. Cost Center Managers are expected to ensure that adequate funding is available to fulfill all scholarship, grant, and loan commitments.*” We noted at least one cost center that had a budget deficit in excess of \$1 million for fiscal year 2014 due to awarding more aid than had been planned at the beginning of the fiscal year. The Office of Budget and Finance had to provide funding to cover the deficit. Without implementation of strict budgetary controls for transactions that post from the Student Information System, the university is at greater risk of having deficits at the end of a fiscal year. Additionally, lack of automated budgetary controls increases the potential that unauthorized scholarship charges would be detected.

**Recommendation:** Consideration should be given to enhance the current budget policy so that budget funding is checked for transactions that are posted from the Student Information System. Additionally, management should ensure that the funding that is available for each scholarship type is articulated to relevant stakeholders prior to the award notifications being sent out to students. This will help ensure that scholarship support is provided at a level that can be sustained in the long run.

**Management’s Response:** *Training will be developed and conducted jointly by the Office of Institutional Scholarship Administration, the Office of Financial Aid, the Office of Advancement, and the Office of Finance to ensure that budgetary information is made available to the scholarship committees by the designated budget officer when appointments to scholarship committees are made, along with a packet containing information about the scholarship requirements and award criteria that is consistent with information posted on the Financial Aid website. This information will reside in the tool developed to monitor committee actions (see response (1c)). Committees can award only up to the budgeted amounts and must submit the amounts to be awarded to the budget officer who will verify the availability of funds and be responsible for the dissemination of award letters as well as completion and submission of an Electronic Scholarship Appointment Form. Appropriate signatures on the forms will ensure review of the financial information.*

**Estimated Date of Implementation:** *September, 2018*

**Person Responsible for Implementation:** *Abby Kratz, Director, Institutional Scholarship Administration*

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<sup>7</sup> <https://www.utdallas.edu/budget/files/FY15-Budget-Policy.pdf>



(4) **Transition to an Electronic Scholarship Appointment Form**

Risk Rating: Medium ★

According to university business procedure UTDBP3050<sup>8</sup>, “*Scholarship and fellowship awards initiated by University offices other than the Office of Financial Aid are made by completing the Appointment Form for School Scholarships, Fellowships and Other Awards* (see Exhibit 1)”. The appointment form must be physically routed to multiple areas within the institution as approvals are required from the Account Manager that the scholarship is being paid from, the respective school dean, and the Graduate or Undergraduate Dean. Once the necessary approvals have been gained the appointment form is routed to Financial Aid so that the award can be applied to the student’s account within the Student Information System. Based on our review, the current paper-based scholarship appointment form may not be suitable for the current needs of the institution:

- Given the number of scholarships that are awarded it is likely that Financial Aid staff that appointment forms are routed to may not have the ability to validate that the documented approvals were actually received from authorized university personally. Considering the monetary value of scholarship that are disbursed it is critical that a better authorizing mechanism be developed.
- Data on the scholarship appointment forms must be manually entered by Financial Aid staff. Given the volume of scholarships that must be entered in a limited period of time, manual data entry may be prone to data entry errors and inefficient.
- Paper-based forms are susceptible to being lost as they are routed between multiple areas which may cause a delay in the processing of the scholarship award.

**Recommendation:** Management should consider developing an electronic scholarship appointment form that can be electronically routed for the required approvals. Additionally, during development of the electronic appointment form, consideration should be given to develop a solution that will minimize the data entry that is required by Financial Aid staff.

*Management’s Response: Development of an electronic form is underway.*

*Estimated Date of Implementation: December, 2016*

*Person Responsible for Implementation: Beth Tolan, Director, Financial Aid*

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<sup>8</sup> <http://policy.utdallas.edu/utdbp3050>



(5) **Develop Process for Monitoring Enrollment Changes for Scholarship Recipients**  
Risk Rating: **Low** ★

The process for monitoring enrollment changes for individuals that have received scholarships could be improved. Currently there is no consistent methodology to identify scholarship recipients that may have dropped classes after the scholarship has been disbursed. The Financial Aid Office has the capability to setup criteria within the Student Information System to verify that the scholarship recipient meets the required minimum hour requirements for the scholarship at the time the aid is being distributed to the student. However, the Financial Aid Office can only setup appropriate criteria if they receive adequate feedback from the departments that are responsible for developing the scholarship eligibility criteria. During conversations with the Financial Aid Office, it was noted that they do not receive feedback from departments on a consistent basis.

**Recommendation:** Management should consider requiring that departments specify the minimum hour requirements for each scholarship type that is awarded. This should be shared with the Financial Aid Office so that they can set up the appropriate criteria within the Student Information System to ensure students meet the necessary minimum hour requirements at the time the aid is being disbursed. Additionally, the responsibility for monitoring changes in course load for scholarship recipients after scholarship monies have been disbursed should be assigned to a central department so that any exceptions can be addressed. Consideration should also be given to disable the capability of scholarship recipients to drop classes online through the Student System without prior consultation with an Advisor.

**Management's Response:** *The Office of Financial Aid has implemented a process for monitoring enrollment and status changes for scholarship recipients. The office is satisfied that the process fulfills the needs represented by this recommendation.*

**Estimated Date of Implementation:** *This was implemented during the Fall 2015 semester.*

**Person Responsible for Implementation:** *Beth Tolan, Director of Financial Aid.*



## Status of Prior Audit Recommendations

The following is the status of implementation of the recommendations resulting from Internal Audit Report No. R0813, *Scholarships*, dated July 17, 2008.

Recommendation	Implemented?
<p>(1) Centralize the process for awarding and handling scholarships and fellowships. Having all scholarships and fellowships routed through a central location that is familiar with federal, state and local policies, procedures, and regulations would allow for the awarding and processing of scholarships and fellowships to be monitored to ensure compliance with rules and that appointment forms are completed accurately, and properly approved. In implementing the policies, departments should ensure there are adequate monitoring and documentation and an appropriate segregation of duties within their department for awarding, approving and reconciling of scholarships and fellowships.</p>	<p>Not Implemented</p> <p>(See recommendation 1 above)</p>
<p>(2) Update the current policy found in the Administrative Policy and Procedures Manual, Scholarships, Fellowships and Other Appointments, Section D2-210.0, and develop new policies and procedures for the awarding, authorization, processing, records retention, monitoring, and documentation requirement for all scholarships. Also, the graduate catalog should be updated to be in compliance with UT System and State policies by listing the criteria for receiving scholarship and fellowship awards at UTD.</p>	<p>Partially Implemented</p> <p><b>Management's Response:</b> <i>The Graduate Catalog information has been expanded and updated to include all mandatory information. The Administrative Policy and Procedures Manual no longer is maintained as a university publication. Its contents have been incorporated into the Policy Navigator, the university's official policies website. The "Scholarships, Fellowships and Other Appointments" section of the former policy on appointments will be revised to be consistent with the published policies on scholarships of the University of Texas System components and submitted to the Vice Chancellor for approval and addition to the policy site.</i></p>



	<p><b>Estimated Date of Implementation:</b> September, 2016</p> <p><b>Person Responsible for Implementation:</b> Abby Kratz, Director, Institutional Scholarship Administration</p>
<p>(3) Monitor scholarships funded by the General Appropriations Act for compliance with UT System, Rules and Regulations of the Board of Regents, Series 40406, <i>Administration of Scholarships</i>. Also work with UT System to determine the scholarships funded by the General Appropriations Act.</p>	<p>No Longer Applicable</p>
<p>(4) Develop a website for Scholarships and Fellowships where all available scholarships are advertised. The scholarships could be listed individually on the central website or links could be provided for scholarships/fellowships available within each of the Schools/Departments. This would provide current and potential students' knowledge of all funds available for scholarships/fellowships, criteria for being considered for the award, and would assist in monitoring to ensure compliance with advertising rules and regulations.</p>	<p>Partially Implemented (Prior to Audit)</p> <p><b>Management's Response:</b> <i>This website has been developed and went "live" in December. The site will be monitored regularly by the Office of Institutional Scholarship Administration and the Office of Advancement for completeness and accuracy. The content will be correlated with scholarship information received via the electronic scholarship appointment forms and the Scholarship Committees Tool.</i></p> <p><b>Estimated Date of Implementation:</b> December, 2015</p> <p><b>Person Responsible for Implementation:</b> Beth Tolan, Director of Financial Aid</p>
<p>(5) Make training available from the Office of Finance to assist departmental scholarship administrators and users in extracting information needed to properly reconcile their scholarship accounts.</p>	<p>Implemented</p>



## Conclusion

Based on our audit procedures, we conclude that the controls over Scholarships should be enhanced to ensure compliance with applicable state, federal, and UT System policies and procedures and ensure that scholarship processes are operating more efficiently and effectively.

We appreciate the courtesy and cooperation received from management and staff in the various campus offices during this audit, including the offices of Institutional Scholarship Administration, Financial Aid, the Bursar, and Development.

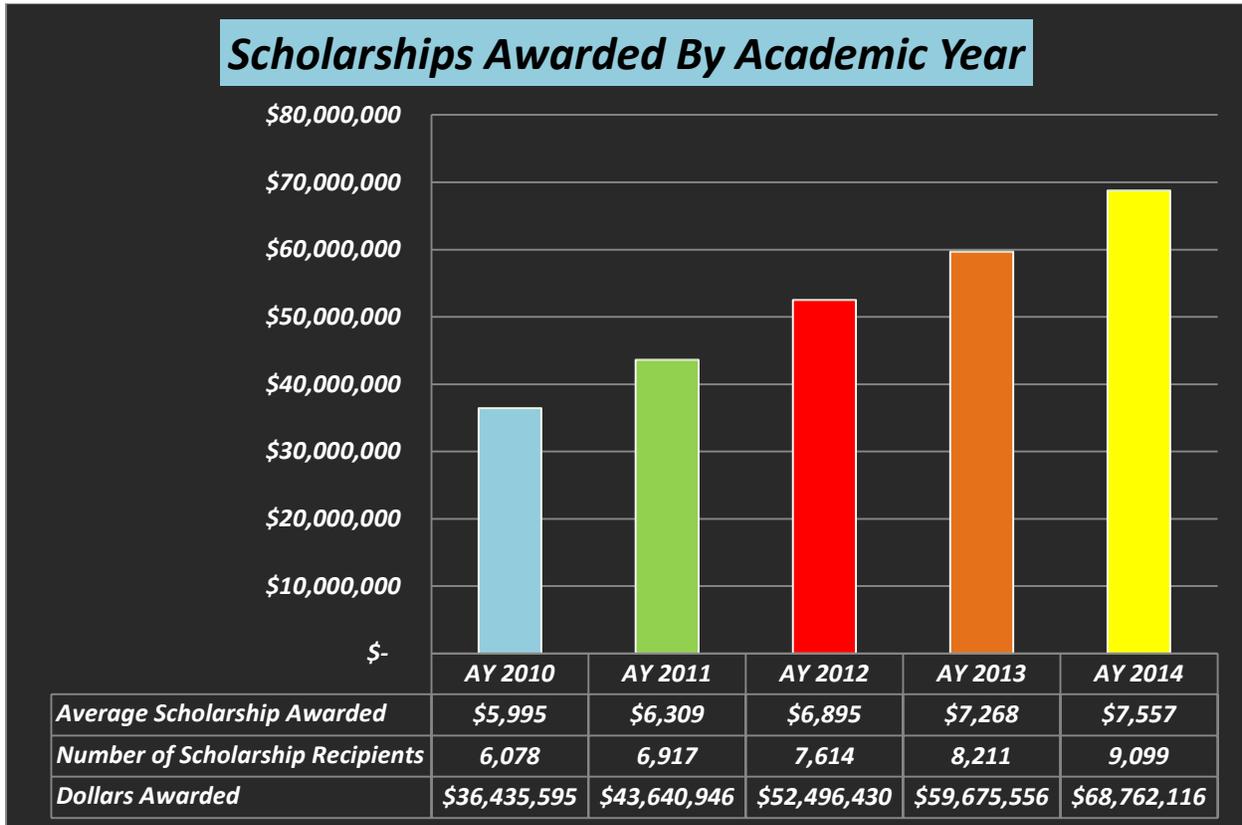


## Appendix A: Priority Findings and Risk Matrix

Risk Level	Definition
<b>Priority</b>	High probability of occurrence that would significantly impact UT System and/or UT Dallas. Reported to UT System Audit, Compliance, and Management Review Committee (ACMRC). Priority findings reported to the ACMRC are defined as <i>“an issue identified by an internal audit that, if not addressed timely, could directly impact achievement of a strategic or important operational objective of a UT institution or the UT System as a whole.”</i>
<b>High</b>	Risks are considered to be substantially undesirable and pose a moderate to significant level of exposure to UT Dallas operations. Without appropriate controls, the risk will happen on a consistent basis.
<b>Medium</b>	The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.
<b>Low</b>	Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.

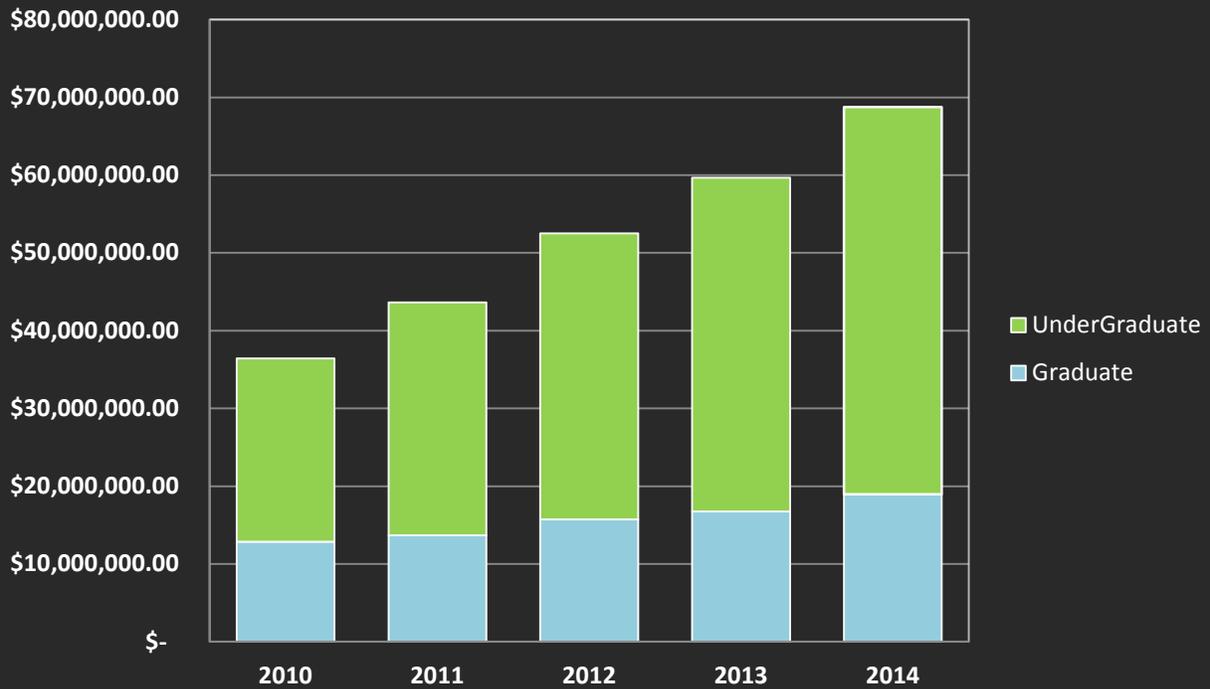


## Appendix B: Scholarships Awarded





### Scholarships By Academic Classification



### Academic Year 2014 Scholarships Fund Source

