



Office of Internal Audit

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August 17, 2016

Dr. Richard Benson, President
Ms. Lisa Choate, Chair of the Institutional Audit Committee:

We have completed an audit of the Budget Process as part of our fiscal year 2016 Audit Plan, 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 our audit was to evaluate the overall process for planning and completing the University's annual budget.

Overall, we found controls are generally adequate but could be improved. The attached report details recommendations that will improve policies and procedures, communication regarding aligning budgets with strategic and operating objectives, Budget Planning Module (BPM) workflow, approval documentation, and access management.

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:

Mr. David Gaarder, Director, Budget and Resource Planning
Ms. Barbara Manzi, Manager of Budget Systems, Budget and Resource Planning
Dr. Kim Laird, Associate Vice President and Controller, Budget and Finance

Members of the UT Dallas Institutional Audit Committee:

External Members:

Mr. Bill Keffler
Mr. Ed Montgomery
Ms. Julie Knecht
Dr. Hobson Wildenthal, Executive Vice President and 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
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Dr. George Fair, Vice President for Diversity and Community Engagement; Compliance Officer
Dr. Gene Fitch, Vice President for Student Affairs
Dr. Inga Musselman, Senior Vice Provost
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

Budget Process, Report No. R1623

Audit Objective and Scope: To evaluate the overall process for planning and completing the University’s annual budget.

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

Recommendation	Risk Level	Estimated Implementation Date
(1) <i>Document Policies and Procedures</i>	Medium	August 2017
(2) <i>Communicate That Budgets Be Prepared to Align with Strategic and Operating Objectives</i>	Medium	Spring 2017
(3) <i>Enhance Budget Planning Module (BPM) Workflow/Approval Documentation, and Review User Access</i>	Medium	FY18 Budget Development Cycle – Workflow/Approval September 1, 2016 – Review User Access
<p>Responsible Vice President:</p> <p>Mr. Terry Pankratz, Vice President for Budget and Finance</p>	<p>Responsible Parties:</p> <p><i>Recommendations (1)(3)</i></p> <ul style="list-style-type: none"> • David Gaarder, Director, Budget and Resource Planning • Barbara Manzi, Manager of Budget Systems, Budget and Resource Planning <p><i>Recommendation (2)</i></p> <ul style="list-style-type: none"> • Terry Pankratz, Vice President for Budget and Finance • Dr. Kim Laird, Associate VP and Controller, Budget and Finance • Dave Gaarder, Director, Budget and Resource Planning 	
<p>Staff Assigned to Audit: Project Leader: Dominique DiAndrea, CIA, Senior Auditor; Staff: Hiba Ijaz, CIA, Staff Auditor; Ray Khan, Staff Auditor Student Interns: Ruben Reyna; Vishal Anil Nath Sahay</p>		



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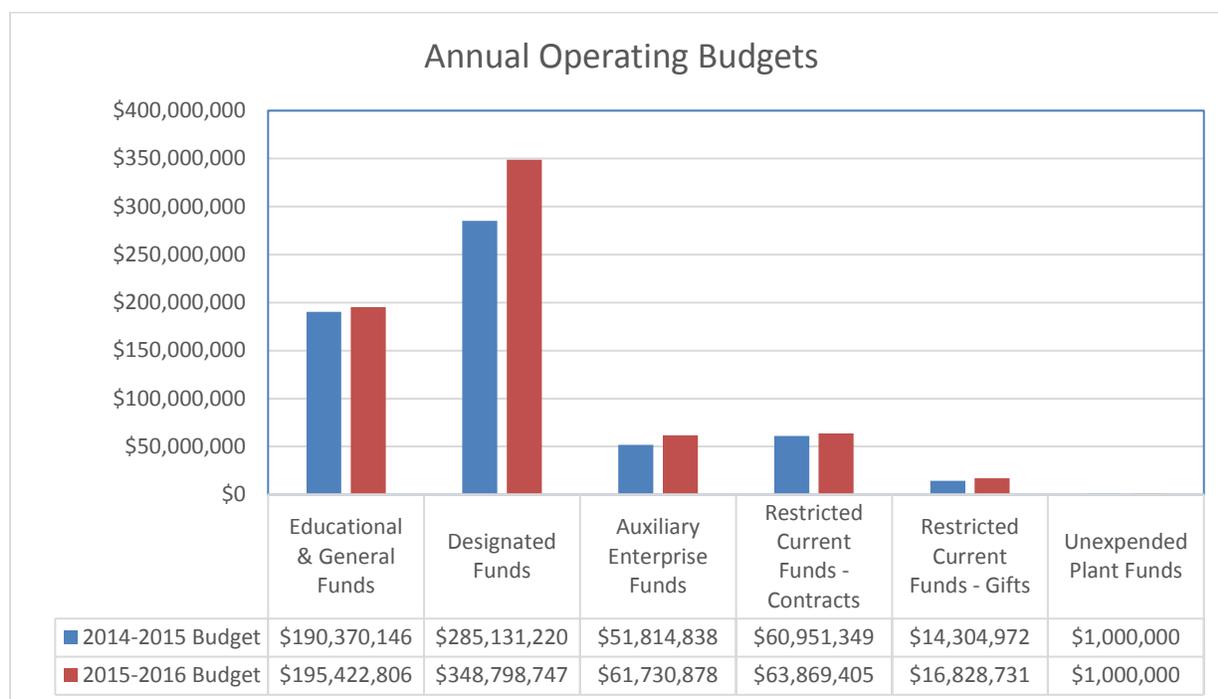
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Background

The [Office of Budget and Resource Planning](#) is part of the Office of Budget and Finance at The University of Texas at Dallas. The Budget Director leads a staff of six and reports directly to the Vice President for Budget and Finance. The Budget Offices' primary responsibilities are to support the university's mission with long-range financial and strategic planning; provide leadership in the development and administration of the institution's annual operating budget; provide counsel on budget issues; coordinate the preparation of the institution's biennial request for legislative appropriations; coordinate and prepare responses to requests for various ad hoc fiscal reports during legislative session; and prepare various reports and surveys related to budget data and financial planning of the university as required by the U.T. System, State Auditor, State Comptroller, Legislature, Legislative Budget Board, Coordinating Board, and Governor's Office.

The total FY15 operating budget for UT Dallas, after adjustments for tuition discounting, capital outlay, debt principal transfers and depreciation, was \$545,587,328, and \$610,996,695 for FY16:



^{1,2*}: See Appendix A for definitions of each fund type.

¹ http://www.utsystem.edu/cont/Reports_Publications/InstBuds/FY2015/DAL2015.pdf

² http://www.utsystem.edu/cont/Reports_Publications/InstBuds/DALFY16BUD.pdf



The PeopleSoft budget management system, Budget Planning Module (BPM), was fully implemented for the FY17 annual budgeting process. Using BPM, 65 different campus groups submitted their budgets to the Budget Office in FY17. In addition, select schools and departments had an opportunity to present their budgets, and highlight their accomplishments from the past fiscal year, during budget hearing sessions coordinated by the Office of Budget and Finance. Typically these presentations also provide a chance for schools and departments and divisions to conduct formal requests for additional funding. For FY17, however, there were no additional funds to be allocated due to budgetary constraints and deficits caused by increased growth and tuition and fee increases not being approved by the UT System Board of Regents (BOR). Once budget data is received and finalized, the Budget Office compiles them into budget documents, which are submitted to the UT System Office of Finance, and then to the BOR for review and approval. BOR approval of the final Budget Book occurs at the end of August of each year.

In addition to the annual budget, a Legislative Appropriations Request (LAR), is also prepared and submitted on a biennial basis (the previous request was submitted in October 2014 for the fiscal years 2016 and 2017). This request is submitted to the Legislative Budget Board of the State of Texas and outlines the funding needed for UT Dallas to "become a nationally competitive, Tier One research university."³ The request outlines UT Dallas' key goals, objectives and strategies. The total amounts appropriated by the State of Texas for fiscal years 2016 and 2017 were \$147,740,639 and \$148,226,420.

Audit Objective

To evaluate the overall process for planning and completing the University's annual budget.

Scope and Methodology

The scope of this audit was FY 2016 through current operations, and our fieldwork concluded on June 24, 2016. To satisfy our objectives, we performed the following:

- Conducted interviews with management and staff from the Budget Office, executive management, and several university campus groups, and examined documentation to gain an understanding of the current budget process.
- Reviewed available policies and procedures.
- Determined if:
 - User access to the Budget Planning Module (BPM) system was appropriate.
 - Budget restrictions were documented and communicated across the University.

³ http://www.utsystem.edu/cont/Reports_Publications/LARs/DALLAR1014.pdf



- Current staffing and organization structure was adequate based on staff credentials, responsibilities, and in comparison to other benchmark universities.
- Budgets were prepared in an efficient and effective manner.
- Appropriate monitoring was being performed on budget variances.

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.

Audit Results and Management's Responses

Controls

Our audit work indicated that the following controls currently exist:

- Guidelines are provided for awarding salary increases, merit instructions, and budget presentations. In addition, a training manual exists that instructs users on the basics of budgeting through BPM.
- Budget restrictions are documented, and communicated with university personnel.
- Processes are in place to ensure the accuracy of the Budget Book and LAR.
- While not formally documented, processes exist to ensure the accuracy of enrollment estimates, budget adjustments (e.g. capital outlays, debt service transfer), and reserves.
- A process is in place to budget for, and monitor ongoing capital projects.
- A detailed review of all open purchase orders takes place at yearend to ensure accuracy of encumbrances.
- Final budget approval by executive management is evidenced.
- Campus groups have a process in place to monitor their budgets for revenue shortfalls and expense deficits.
- The Associate VP and Controller of Budget and Finance has a process in place to communicate, and review budget performance with executive management.

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.”⁴ We have **no UT System Priority Findings** resulting from this audit.

⁴ The appendix defines the risk levels for all internal audit recommendations.



However, although the above controls are in place, opportunities exist to improve operations by implementing the recommendations outlined below.

(1) **Document Policies and Procedures**

Risk Rating: Medium ★

Departmental procedures relating to budget creation and review of school/department budgets and presentations are not in place. In addition, complex processes and calculations related to the tuition and fee model, budget adjustments (e.g. capital outlays, debt service transfer), and reserves are not documented. Further, due to the complexity of certain processes and calculations, knowledge would be lost should turnover occur.

It was also found that one budget change journal for approximately \$930k was posted directly by the Budget Director, and, therefore, did not go through the system workflow. Budget journals occur rarely, but may be required once the original budget has been approved due to availability of new sources of funding, changes to revenue or expense estimates, or the addition of new faculty and staff. Only three individuals within the Budget Office (Budget Director, Manager, and Sr. Financial Analyst) have the ability to direct-post when needed. The purpose of this journal was to update the function type, only, as requested by the Director of that area. Internal Audit agrees that support uploaded to BPM for the requested journal serves as a form of approval, however, any exception to the workflow, should be clearly documented.

Recommendation: All procedures related to the budgeting process should be documented and communicated to those with a business need. In addition, major business processes should be clearly documented and periodically reviewed and updated.

Management's Response and Action Plan: *The Budget Office recognizes the need for better documentation and will compile a comprehensive set of policies and procedures related to the budget development process and other vital budget processes and procedures. This will be accomplished by following the Office of Budget and Finance's guidelines for developing written documentation, with assistance from the technical writer. Critical aspects of the budgeting process and key business processes, including exception handling, will be documented with primary process owners assigned as content experts for each document. Procedures will be implemented to ensure that documentation is periodically reviewed and updated.*

Estimated Date of Implementation: *Process to begin August, 2016 with a completion target of August, 2017.*

Persons Responsible for Implementation: *David Gaarder, Director, Budget and Resource Planning; Barbara Manzi, Manager Budget Systems*



(2) **Communicate That Budgets Be Prepared to Align with Strategic and Operating Objectives**
Risk Rating: Medium ★

While we reviewed documents supporting alignment of the university's budget with strategic goals and priorities, currently, formal communication is not provided to the schools, divisions, or departments advising them to align their budgets with strategic and operating objectives of both UT Dallas and the individual divisions. As an organization's mission is what drives and dictates its strategic and operating objectives, it is imperative that University personnel align their budgets with these goals when budgeting for the upcoming fiscal year. Without this alignment, executive management may make budgetary decisions without full understanding of strategic and operating objectives.

Recommendation: As part of the annual budgeting process, the Budget Office should instruct the schools, divisions, and departments to provide and present documentation that demonstrates how their individual budgets align with the strategic and operating objectives for their respective areas, as well as the University as a whole.

Management's Response and Action Plan: *Early in the budget cycle, the university conducts strategic budget reviews (budget hearings). Budgetary units prepare for the President's cabinet a presentation addressing accomplishments of the previous year and priorities of the coming year, including related funding requirements. The president and the executive staff evaluate the priority requests of each budgetary unit, within the context of the strategic goals of the university as outlined in the university's strategic plan and within the context of the division/departamental goals. Decisions are made for new initiative funding during the coming budget year based on strategic priorities. Additionally, the Office of Budget and Finance implemented a new strategic budget process within the division for the FY 2017 budget cycle. Documents describing this process were provided to Internal Audit as part of this response. The division will work to lead the effort in promoting more intentional strategic budgeting practices throughout the university.*

Management concurs with the need to incorporate into the budget process documented communication to budgetary units regarding the requirement for strategic budget alignment. The Office of Budget and Finance will provide clear instructions to budget units emphasizing the need for explicit discussion of the alignment of operating budgets with strategic priorities and goals during the annual strategic budget review (budget hearings) beginning with the FY 2018 budget cycle.

Estimated Date of Implementation: *Spring 2017*

Persons Responsible for Implementation: *Terry Pankratz, Vice President for Budget and Finance; Kim Laird, Associate Vice President and Controller; David Gaarder, Director, Budget and Resource Planning*



(3) **Enhance Budget Planning Module (BPM) Workflow/Approval Documentation, and Review User Access**
Risk Rating: Medium ★

The following were noted when evaluating the budget management system, BPM:

- There is no workflow enabled in BPM to allow a user to view who entered and/or approved a budget. Only a budget status of "N" (Nothing), "D" (Submitted), or "E" (Executive Member Approval) is viewable.
- Each year, campus groups must request user access for their personnel for the upcoming fiscal year. Periodic reviews throughout the year, however, do not take place. Through testing, it was found that one user had access to a campus group without an appropriate business purpose. In addition, seven users had access that surpassed the level of access that is required by their position. These seven had participated in testing the production environment during the implementation of BPM. As the system is now implemented, they no longer require this level of access.

Recommendation: Workflow should be designed and implemented in BPM to evidence budget submitters and approvers. In addition, to ensure that access is limited to authorized users, management should develop a periodic monitoring process to verify that users have the appropriate level of access assigned based on their job responsibilities.

Management's Response and Action Plan: In order to provide clear documentation of the budget approval process, the Office of Budget & Resource Planning will work with the PeopleSoft developers in the UTD Office of Information Technology to investigate the possibility of developing an enhancement within the BPM that will allow the submitter and approver to be identified, as well as the workbook status. If a feasible solution cannot be implemented within the module, a manual method will be incorporated to document the workflow of the approval process.

The Office of Budget and Resource Planning will review BPM user access and roles throughout the year in addition to the campus-wide security review and assignment at the beginning of the annual budget development process. Any necessary changes will be made in order to assure that access is limited to authorized users, and roles are assigned based on current job responsibilities. User updates will also be made as needed during the year as Budget Office staff become aware of personnel changes that will affect access needs. Department approval will continued to be required to add someone to the user list and assign an appropriate role.



Estimated Date of Implementation: A process of documenting budget submission and approval to identify users performing these functions will be implemented during the FY18 budget development cycle.

A review of user access will occur before September 1, 2016, the beginning of the FY17 fiscal year.

Persons Responsible for Implementation: Dave Gaarder, Director, Budget and Resource Planning; Barbara Manzi, Manager, Budget Systems



Status of Prior Audit Recommendations

The following is the status of implementation of the recommendations relating to budget resulting from Internal Audit Report No. R1328, *Budget Process*, dated August 29, 2013.

Recommendation	Implemented?
Management should establish a written policy that limits the use of suspense accounts and improves oversight and monitoring. The policy should include a reconciliation and approval process that ensures a proper segregation of duties and accounting for transactions. Additionally, management should establish written procedures to ensure proper instructions for suspense account use are provided to departments and fiscal officers.	Yes
Since Budget is responsible for the accuracy of the operating budget, they should have sufficient oversight during the roll-forward process and should validate the accuracy of the data used to populate the Budget. Additionally, communications between Procurement and Budget should be enhanced during this process to minimize the risk of error during the roll-forward process.	Yes
The Budget Office should enhance their oversight over the revenue projections submitted by the departments to ensure reasonableness and minimize the risk of deficit balances created as a result of inaccurate estimates. Additionally, the Budget Office should implement an ongoing monitoring process to compare actual revenues to projected revenues to identify cost centers likely to carry deficit balances so appropriate adjustments can be made prior to fiscal year end.	Yes
The Budget Office should revise the methodologies used to estimate funds to transfer to the central fee benefits cost centers to minimize the risk of surplus or deficit balances.	Yes
The Budget Office should establish processes to ensure that compliance with the budget policies are monitored and enforced.	Yes
The Budget Office should enhance the communications to both academic and non-academic departments during the budget allocation process.	Yes
The Budget Office should work with the PeopleSoft Access Control Team to periodically review all roles assigned that relate to budget data, ensuring the appropriate assignment of roles based on the users' job duties.	No – refer to recommendation #3



Conclusion

Based on the audit work performed, we conclude that controls over the budget process are generally acceptable. Implementation of the recommendations will assist with strengthening controls over policies and procedures, communication regarding aligning budgets with strategic and operating objectives, Budget Planning Module (BPM) workflow, approval documentation, and access management.

We appreciate the courtesy and cooperation received from the management and staff in the Office of Budget and Resource Planning, as well as the Office of Budget and Finance, as part of this audit.



Appendix A: Fund Type Definitions

Education & General Funds	These funds are derived from state appropriations and mandatory student tuition and fees. They include net tuition, and various fees allowable under Texas Education Code Sec. 54.051, e, (l).
Designated Funds	Funds designated by the Board of Regents or management without donor or grantor restrictions designed by the Board of Regents or management for specific purposes. These funds are appropriated by the Texas State Legislature.
Auxiliary Enterprise Funds	Funds received from external sources for the purpose of providing goods or services, or support to University members.
Restricted Funds - Contracts & Gifts	Funds whose purpose have been restricted or imposed by a grantor.
Plant Funds	Funds that are used for major capital activities and projects.



Appendix B: Priority Findings and Risk Matrix

Definition of Risks

Risk Level	Definition
<p style="text-align: center;">Priority</p>	<p>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></p>
<p style="text-align: center;">High</p>	<p>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.</p>
<p style="text-align: center;">Medium</p>	<p>The risks are considered to be undesirable and could moderately expose UT Dallas. Without appropriate controls, the risk will occur some of the time.</p>
<p style="text-align: center;">Low</p>	<p>Low probability of various risk factors occurring. Even with no controls, the exposure to UT Dallas will be minimal.</p>