

Budget Procedures

*Budget Office &
Accounting and Financial Management*



November 2019

**The University of Texas at Austin
Office of Internal Audits
UTA 2.302
(512) 471-7117**

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This report has been distributed to Institutional Audit Committee members, the Legislative Budget Board, the State Auditor's Office, the Governor's Office of Budget and Planning, and The University of Texas System Audit Office for distribution to the Audit, Compliance, and Management Review Committee of the Board of Regents.

**Budget Procedures
Project Number: 18.006**



OFFICE OF INTERNAL AUDITS
THE UNIVERSITY OF TEXAS AT AUSTIN

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November 6, 2019

President Gregory L. Fenves
The University of Texas at Austin
Office of the President
P.O. Box T
Austin, Texas 78713

Dear President Fenves,

We have completed our audit of Budget Procedures. Our scope included budget procedures and budget preparation for September 1, 2016, to August 31, 2017.

We concluded that The University of Texas at Austin does not have adequate account balance monitoring controls. Departments can operate accounts with negative cumulative balances while establishing future budgets and maintaining spending authority. Management has three opportunities to enhance controls, including implementing a policy on budget deficits and monitoring, among others. The policy recommendation is a priority issue and will be reported to and tracked by The University of Texas System Board of Regents.

We appreciate the cooperation and assistance of the Budget Office and Accounting and Financial Management during the audit.

Sincerely,

A handwritten signature in blue ink, reading "Sandy Jansen".

Sandy Jansen, CIA, CCSA, CRMA
Chief Audit Executive

cc: Institutional Audit Committee Members
Mr. Darrell Bazzell, Senior Vice President and Chief Financial Officer
Ms. Tara Doolittle, Chief of Staff, Financial and Administrative Services
Mr. Carlos Martinez, Chief of Staff, Office of the President
Ms. Amy Reyna, Assistant to Senior Vice President and Chief Financial Officer



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EXECUTIVE SUMMARY

The Office of Internal Audits (Internal Audits) has completed an audit of budget procedures at The University of Texas at Austin (university).

Conclusion

The university does not have adequate account balance monitoring controls. Departments can operate accounts with negative cumulate balances while continuing to establish future budgets and maintain spending authority.

Summary of Recommendations¹

Three recommendations are included in the report to enhance controls, including implementing a policy on budget deficits and monitoring procedures, monitoring Gift Fund accounts (30-accounts) to prevent operating with negative balances, and enforcing criteria stating that Service Center accounts (18-accounts) operate on a break-even basis.

Management agreed with the recommendations and provided corrective action plans. The corrective action plans are expected to be implemented by January 31, 2020.

Audit Scope and Objective

The scope of this audit included budget procedures and budget preparation for September 1, 2016, to August 31, 2017. After the audit began, Internal Audits noted that in addition to the Budget Office, the Accounting and Financial Management department provides support for budget administration to departments. The following budget groups were reviewed: Service Center Funds (18-accounts), Designated Funds (19-accounts), Auxiliary Enterprise Funds (29-accounts), and Gift Funds (30-accounts).

Specific audit objectives included:

- Evaluating the process for planning and completing college, school, or unit annual budgets
- Evaluating controls over spending authority and budget adjustments

¹ Each issue has been ranked according to The University of Texas System Administration (UT System) Audit Issue Ranking guidelines. Please see the Appendix A for ranking definitions.



BACKGROUND

The Budget Office is part of Financial and Administrative Services (FAS) at The University of Texas at Austin (university). The FAS portfolio is managed at the executive level by the senior vice president and chief financial officer. The budget director leads a staff of eight employees and reports directly to the associate vice president for finance. The Budget Office responsibilities include:

- Participating in the strategic planning process on budget-related matters
- Coordinating budget systems and procedures with Payroll, Human Resource Services, Accounting and Financial Management, and other applicable departments
- Preparing various financial tables, reports, comparisons, and impact studies on proposed and actual legislation²
- Reviewing and processing original budget documents

Preparation of an annual budget allows departments to estimate and plan financially for the next fiscal year and allows the Budget Office and Accounting and Financial Management to monitor university-wide spending. All budgets must be approved by the respective dean or vice president's office and then routed to the Budget Office for review and approval³.

Accounting and Financial Management monitors Service Center Funds, Education and General (E&G) Funds, Designated Funds, Restricted Funds, and Agency Funds. Responsibilities include:

- Posting original budget documents to *DEFINE (university's financial system)
- Periodically comparing budget to actual
- Alerting management/departments to potential shortfalls that could create year end overdrafts⁴

SCOPE, OBJECTIVES, AND PROCEDURES

The scope of this audit included budget procedures and budget preparation for September 1, 2016, to August 31, 2017. After the audit began, Internal Audits noted that in addition to the Budget Office, Accounting and Financial Management provides support for budget administration to departments. The following budget groups were reviewed: Service Center Funds (18-accounts), Designated Funds (19-accounts), Auxiliary Enterprise Funds (29-accounts), and Gift Funds (30-accounts).

Although not in the scope of this engagement, financial trends over a five-year period reflected negative ending cumulative balances year-over-year in certain accounts. Internal Audits reviewed negative ending cumulative balances over multiple years (FY13/14 - FY17/18) to analyze these identified financial trends. Accounts with positive ending balances were not analyzed. However, updated policy and monitoring procedures will help to improve transparency for accounts with large positive ending cumulative balances.

Specific audit objectives included:

- Evaluating the process for planning and completing college, school, or unit annual budgets
- Evaluating controls over spending authority and budget adjustments

² Budget Office website - <https://budget.utexas.edu/about>

³ *Handbook of Business Procedures*, Section 3.2 Operating Budget: <https://financials.utexas.edu/hbp/part-3/2-operating-budget>

⁴ Financial Accounting and Reporting: <https://financials.utexas.edu/financial-accounting-and-reporting>



To achieve these objectives, Internal Audits:

- Conducted interviews with management and staff from the Budget Office and Accounting and Financial Management
- Reviewed the *Handbook of Business Procedures* (HBP) to understand the budget process
- Evaluated the responses to the questionnaire received from the Budget Office and Accounting and Financial Management
- Analyzed the ending cumulative balances for 18-accounts, 19-accounts, 29-accounts, and 30-accounts

Accounts associated with Information Technology Services (ITS) were included to identify all accounts with negative cumulative balances; however, these accounts were not included for testing. ITS accounts were reviewed in 2017 as a consulting project.

The table below demonstrates the total number of departmental accounts using Cognos data⁵ for FY13/14 - FY17/18.

Account Group	Total Number of Budget Groups
18	204
19	3,810
29	183
30	9,734

Adjustments, pooled funds, restatements, reserves, and clearing (9999) accounts with negative cumulative balances are not included in the above amounts.

AUDIT RESULTS

The table below demonstrates negative ending cumulative balances for accounts by total and percentage. The right two sections (FY16/17, and FY13/14-FY17/18) provide accounts with negative ending cumulative balances calculated during the defined period. The left columns provide the account group used for each row and the total number of accounts reviewed for the entire period (the same population of accounts were used for both sections).

Account Group	Total Budget Groups Reviewed	FY16/17		FY13/14-FY17/18	
		Accounts with Negative Balances	% Accounts with Negative Balances	Accounts with Negative Balances	% Accounts with Negative Balances (one or more occurrences in period)
18	204	39	19%	79	39%
19	3,810	187	5%	575	15%
29	183	19	10%	48	26%
30	9,734	427	4%	966	10%

Adjustments, pooled funds, restatements, reserves, and clearing (9999) accounts with negative cumulative balances are not included in the above amounts.

⁵ Cognos – Business Intelligence software that allows users to retrieve data and create reports from a central repository.
<https://iq.utexas.edu/faq>



According to the Accounting and Financial Management website, responsibilities include periodically comparing budget to actual and alerting management/departments to potential shortfalls that could create year-end overdrafts. However, neither Accounting and Financial Management nor the Budget Office have authority to require departments to operate with a positive balance or require a balance correction when a department operates in deficit. Three opportunities to enhance current policies and procedures are included below. These recommendations will improve the control structure across the university and provide an avenue for Accounting and Financial Management and the Budget Office to effectively monitor future account balances.

Policy for Departmental Account Deficiencies

Audit Issue Ranking: Priority

The university does not have a policy to prohibit deficits in departmental accounts, and the Budget Office and Accounting and Financial Management do not have central authority to require account adjustments to address deficiencies. Instead, they must rely on monitoring at the College, School, and Unit (CSU) level. In addition, university policy does not identify responsibility for overall account monitoring and management. Without guidance, accountability, or controls, departments will continue to operate accounts with negative ending cumulative balances. Essentially, these accounts are financed at the expense of the overall cash position and negatively affect the university's annual financial statements, although not at a material level.

Section four of *The University of Texas Systemwide (UTS) Policy 118*⁶ states, "Management shall establish and maintain a system of internal controls that provides reasonable assurance that improprieties are prevented or detected and investigated."

Recommendation One: The university should develop a policy which will:

- Establish central monitoring procedures by Accounting and Financial Management
- Require departments to address deficits in a timely manner
- Outline escalation procedures when departments or Service Centers continue to operate in deficit, including prohibiting future deficits when not corrected by CSUs

Management's Response and Corrective Action Plan:

Accounting and Financial Management (AFM) and the Budget Office will perform a review of accounts with previously-approved overdraft authority and will work with account owners to clear deficits, as needed. A regularly-scheduled review of approved overdrafts will be conducted.

AFM and the Budget Office will develop a policy to establish central controls related to account deficit balances. The policy will take into account many factors, including:

- Dollar thresholds of deficit accounts that will be monitored
- Year-over-year trends
- Accounts and account types that are determined to never have allowable deficit balances

AFM and the Budget Office will research accounts with deficit balances to determine any special circumstances that may prevent the need for consistent monitoring, including, but not limited to accounts that operate on a proven, consistent reimbursement basis.

⁶ UTS 118: <https://www.utsystem.edu/sites/policy-library/policies/uts-118-dishonest-or-fraudulent-activities>



AFM and the Budget Office will establish periodic account balance monitoring and work with CSUs to proactively provide appropriate, helpful balance reports.

AFM and Budget will work with CSUs to define expectations for clearing deficit balances.

Escalation procedures for clearing deficits will be as follows:

1. Apply previously-established timeframes and work with account owners to identify fund source for deficit clearing
2. Use guaranty accounts to cover deficits
3. Mandate budget adjustments for future budgets, as needed

Responsible Person: AVP for Accounting and Financial Management, or equivalent

Planned Implementation Date: 1/31/2020

Post Audit Review: Second Quarter of Fiscal Year 2020

Monitoring of Gift Funds (30-Accounts)

Audit Issue Ranking: High

Gift Funds are not centrally monitored and can operate with (year-over-year) negative ending cumulative balances. There is neither departmental oversight nor adequate review by central administration to ensure these accounts remain solvent. If these accounts are not centrally monitored, then departments can continue to operate with a negative ending cumulative balance.

Section four of *University of Texas System (UTS) Policy 118⁸* states, “Management shall establish and maintain a system of internal controls that provides reasonable assurance that improprieties are prevented or detected and investigated.”

Recommendation Two: Ensure the university is monitoring Gift Funds (30-accounts) so departments are not operating with negative ending cumulative balances.

Management’s Response and Corrective Action Plan:

AFM and the Budget Office will work with the Development Office and Provost Office to develop a policy to establish central controls and establish periodic account balance monitoring related to 30-account deficit balances. The policy will take into account many factors, including endowed and non-endowed accounts.

Responsible Person: AVP of Finance

Planned Implementation Date: 1/31/2020

Post Audit Review: Second Quarter of Fiscal Year 2020

Service Center (18-Accounts) Budgets

Audit Issue Ranking: High

Service Center accounts are operating with (year-over-year) negative ending cumulative balances. Additionally, guarantee accounts are not utilized to subsidize accounts when departmental deficits occur. Departments with Service Center accounts that operate with negative ending cumulative balances are not meeting established budgetary goals. If the departments are not held accountable for the university’s business procedures, then they will continue to operate with negative



cumulative ending balances. Essentially, these accounts are financed at the expense of the overall cash position and negatively affect the university annual financial statements, although not at a material level.

Section 10.2.C of the *Handbook of Business Procedures* requires Service Centers to operate on a break-even basis and comply with university accounting policies. In addition, section 10.3.4.D requires guarantee accounts for unrecovered center expenses or uncollectible revenue.

Recommendation Three: Management should enforce criteria in the university's *Handbook of Business Procedures* stating that Service Centers operate on a break-even basis. Guarantee accounts should be utilized when Service Center accounts fall below the break-even threshold.

Management's Response and Corrective Action Plan:

Since April 2018, the Service Center team within Accounting and Financial Management has been providing a balance review report on a monthly basis to the respective Council of University Business Officers (CUBO) members. CUBO can then work with the Service Center managers to determine how they would like to address a potential deficit. Note, actions could include increasing the rates to alleviate the deficit balance or using the guarantee account.

Additionally, since the FY19-20 Annual Budget Cycle, the Service Center team works directly with Service Centers to review and update budget figures within the University Budget System. This process ensures that any recommended budget reductions will be uploaded into the budget system.

Responsible Person: AVP for Accounting and Financial Management, or equivalent

Planned Implementation Date: April 2018

Post Audit Review: Second Quarter of Fiscal Year 2020

ADDITIONAL CONSIDERATIONS

In addition to the recommendations above, the senior vice president and chief financial officer should consider the following as their team continues to improve the university's control environment. No response is required.

1. In communicating expectations to account holders, explain the rationale for monitoring/accountability between Accounting and Financial Management and CSUs.
2. Implement staff training and development opportunities for various applications used across campus (such as *DEFINE, FRMS, HRMS). Individuals in financial roles should understand budget maintenance, fiscal management, and the university's financial systems.
3. Include a phased transition plan for individuals affected by these changes in fiscal responsibility and oversight.



CONCLUSION

The university does not have adequate account balance monitoring controls. Departments operate accounts with negative cumulate balances while continuing to establish future budgets and maintain spending authority.

In accordance with directives from The University of Texas System Board of Regents, the Office of Internal Audits will perform follow-up procedures to confirm that audit recommendations were implemented.



APPENDIX A

Audit Issue Ranking

Audit issues are ranked according to the following definitions, consistent with UT System Audit Office guidance. These determinations are based on overall risk to UT System, Texas, and/or the individual college/school/unit if the issues are left uncorrected. These audit issues and rankings are reported to UT System directly.

- **Priority** – A Priority Issue is an issue that, if not addressed immediately, has a high probability to directly impact achievement of a strategic or important operational objective of Texas or the UT System as a whole.
- **High** – An issue that is considered to have a medium to high probability of adverse effects to Texas either as a whole or to a significant college/school/unit level.
- **Medium** – An issue that is considered to have a low to medium probability of adverse effects to Texas either as a whole or to a college/school/unit level.
- **Low** – An issue that is considered to have minimal probability of adverse effects to Texas either as a whole or to a college/school/unit level. Issues with a ranking of “Low” are reported verbally to the unit and are not included in the final report.