August 29, 2013

Dr. Daniel:

We have completed an audit of the *Budget Process* as part of our Fiscal Year 2013 Audit Plan, and the detailed report is attached for your review. The objective of this audit was to provide assurance that adequate controls exist over the budget process and system to ensure the effectiveness and efficiency of operations, compliance with applicable laws, and the reliability and integrity of financial and operational information.

Overall, we found that controls can be strengthened over the University’s budget process. The attached report details seven recommendations to enhance compliance and internal controls. These recommendations include strengthening controls over the use of suspense accounts, enhancing oversight and communications, and reviewing PeopleSoft roles and responsibilities.

Management has reviewed the recommendations and has provided responses and anticipated implementation dates. Please let me know if you have any questions or comments regarding this audit.

Toni Stephens
Executive Director of Audit and Compliance

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Ms. Lynne Culverhouse, Director for Budget and Resource Planning

*Members of the UT Dallas Audit and Compliance Committee*
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Dr. Calvin Jamison, Vice President for Administration
Mr. Terry Pankratz, Vice President for Budget and Finance
Dr. Andrew Blanchard, Vice President for Information Resources and Chief Information Officer
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*State of Texas Agencies*
Legislative Budget Board
Governor’s Office
State Auditor’s Office
Sunset Advisory Commission

*Auditors Assigned*
Ali Subhani, CIA, CISA, GSNA, IT Audit Manager
Dylan Becker, CPA, Senior Auditor, Auditor in Charge
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Executive Summary

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<th>Auditors Assigned:</th>
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<tr>
<td>Audit Report No. R1328</td>
<td>• Mr. Terry Pankratz, Vice President for Budget and Finance&lt;br&gt;• Ms. Lynne Culverhouse, Director for Budget and Resource Planning</td>
<td>• Ali Subhani, CIA, CISA, GSNA, IT Audit Manager&lt;br&gt;• Dylan Becker, CPA, Senior Auditor</td>
</tr>
</tbody>
</table>

**Audit Objective:** To provide assurance that adequate controls exist over the budget process and system, to ensure the effectiveness and efficiency of operations, compliance with applicable laws, and the reliability and integrity of financial and operational information.

**Summary of Audit Recommendations:** The audit resulted in no recommendations considered significant to University operations. However, we offer the following recommendations to enhance internal controls over the budget process:

1. Improve Oversight and Monitoring of Suspense Accounts
2. Enhance Oversight over the Roll-Forward Process
3. Improve Oversight and Monitoring over Revenue Projections
4. Review Method to Estimate Funds for Central Fee Benefits Cost Centers
5. Enforce the Budget Policy
6. Enhance Communications
7. Review PeopleSoft Roles

**Conclusion:** Controls over the budget process should be strengthened to ensure the effectiveness and efficiency of operations, compliance with applicable laws, and the reliability and integrity of financial and operational information.

**Does Management Agree with Recommendations?**
- Yes ☑
- No □

**Estimated Date of Implementation:** Various dates within FY 2014 – see detailed responses.
Background

The Budget Office provides oversight over the annual budget process and helps develop and administer the University’s annual operating budget. The Budget Office is responsible for the accuracy and integrity of the annual budget, and for providing consultation to senior management, including the President’s Cabinet, Deans, and the Provost’s office over budgetary issues. Additionally, the Budget Office provides a monitoring and approval role over budget and salary transfers, re-allocations, and fund balance transfers to ensure appropriate funds are available prior to their execution, and provides a leadership role over the preparation of the University’s biennial request for legislative appropriations.

The Director of Budget and Resource Planning leads a staff of nine and reports directly to the Vice President for Budget and Finance.

The total fiscal year 2013 operating budget after adjustments was $494,898,061. Total budgeted expenses for Fiscal Year 2014 are $605,843,838.
Audit Objective

The objective of this audit was to provide assurance that adequate controls exist over the budget process and system, to ensure the effectiveness and efficiency of operations, compliance with applicable laws, and the reliability and integrity of financial and operational information.

Scope and Methodology

The scope of this audit was fiscal years 2012 and 2013 operations as of July 30, 2013. To satisfy our objectives, we performed the following:

- Interviewed personnel to gain an understanding of annual budget process.
- Obtained an understanding of applications and processes used to record the annual operating budget to ensure its accuracy and reliability in PeopleSoft.
- Reviewed processes to ensure compliance with UTD Budget Policy.
- Reviewed access controls over critical budget data.
- Performed analytical procedures to assess the accuracy and reliability of revenue projections and the roll-forward process.
- Examined suspense account activities to ensure expenses were accurately and timely recorded in appropriate cost centers.

Where applicable, our examination was conducted in accordance with guidelines set forth in The Institute of Internal Auditors' 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 of audit work, and management of the internal auditing department.

Audit Results and Management’s Responses

A significant recommendation is defined as one that may be material to operations, financial reporting, or legal compliance. This would include an internal control weakness that does not reduce the risk of irregularities, illegal acts, errors, inefficiencies, waste, ineffectiveness, or conflicts of interest to a reasonable low level. There were no recommendations considered significant to University operations.

Audit Results

The Budget Office is proactive in formulating strategies and undertaking initiatives to make improvements. During our audit work, however, we noted the following opportunities to enhance the University’s budget processes.
(1) Improve Oversight and Monitoring of Suspense Accounts

Suspense accounts are intended to temporarily hold unclassified transactions until further information is obtained. For sponsored projects, suspense accounts are primarily used to record expenditures between the award date and funding date. For contracted employees, suspense accounts are primarily used to bridge the gap between contract end dates and contract renewal dates. Ineffective monitoring and oversight procedures over suspense accounts increase the risks of fraudulent or erroneous accounting activities as well as the untimely and inaccurate recording of expenditures.

Expenses recorded to suspense accounts were supposed to be moved into the appropriate cost center once new funding from a sponsor was received, or when the contract was actually renewed. However, there was insufficient oversight from the Budget Office over suspense account activities. As a result, to allow the fiscal year to be closed in the financial system, inappropriate re-allocations were made that moved unclassified transactions to inappropriate cost centers unrelated to the expense. This caused the University to absorb expenditures for sponsored projects. Due to the number of transactions that impacted suspense accounts, we were unable to quantify the expenses that were moved to unrelated cost centers or how much the University absorbed for expenses related to sponsored projects.

A total of 70 unique cost centers from 42 departments were identified that recorded transactions to suspense accounts during fiscal year 2012. From the analysis performed, it appears that the vast majority of transactions that flowed through suspense cost centers were related to salaries, wages, and benefits relating to sponsored projects.

Recommendation:

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.

Management’s Response and Action Plan:

Management has proactively implemented a new strategy for suspense account activity. Beginning in FY 14, each Dean/School will be assigned 2 clearing costs centers (1 for payroll activity and 1 for non-payroll activity). The accountability to reconcile and balance these cost centers will reside with the responsible school budget unit head.

Estimated Implementation Date: 09/30/2013

Responsible Person: Lynne Culverhouse, Director for Budget and Resource Planning
(2) Enhance Oversight over the Roll-Forward Process

At the end of each fiscal year, the Budget Office performs a roll-forward process for all cost centers. This process helps ensure that current year budgets are not impacted by prior year activities, such as outstanding purchase orders that were encumbered in the prior year. Procurement Management is responsible for identifying and communicating to the Budget Office all open purchase orders.

During our audit, we found purchase orders that had been closed in fiscal year 2012 but had an outstanding encumbered amount that was rolled forward to fiscal year 2013. We were unable to accurately quantify the number of purchase orders or the dollar amount that closed with an outstanding encumbered amount because the encumbered amounts recorded in PeopleSoft did not always tie to the purchase order amount and the data within PeopleSoft tables was inconsistent. It appears that there was insufficient monitoring over purchase order activities and a lack of oversight during the roll-forward process that failed to identify closed purchase orders with open encumbrances.

**Recommendation:**

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.

**Management’s Response and Action Plan:**

Management Concurs: The budget office will partner with Procurement Management to implement a system to reconcile and confirm outstanding purchase orders at year end.

**Estimated Implementation Date:** 10/31/2013

**Responsible Person:** Lynne Culverhouse, Director for Budget and Resource Planning; Pete Bond, Assistant Vice President for Procurement Management

(3) Improve Oversight and Monitoring over Revenue Projections

Projections for revenues are made at the departmental level and are part of the annual budget process. Budgeted revenues are expected to be realistic to minimize the risk of deficit balances at the end of the fiscal year. Best practices suggest a documented revenue methodology should be used to support projections for future revenues.

It appears that oversight from the Budget Office should be improved over the projections made by the departments. During a comparison of revenue projections to actual revenues for fiscal year 2012, we noted the following:
• 110 (70%) out of the 157 cost centers examined had actual revenues differ from projected revenues by at least 25% (See Summary Results graph).
• 25 cost centers had actual revenues within 25% of projected revenues that carried an aggregate deficit balance of approximately $4.7 million (See Detailed Results graph).

**SUMMARY RESULTS**

![Summary Results Graph]

**DETAILED RESULTS**

![Detailed Results Table]
Recommendation:

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.

Management’s Response and Action Plan:

Management Concurs with overall recommendation; a new procedure has been implemented for FY 14 Budget process to validate all revenue increases in excess of 25% over previous year budget. Justification for all accounts exceeding this 25% threshold will be required. Additionally, the Budget Office will perform mid-year analytical review of all revenue accounts in comparison to projected revenues. In addition, a policy and business process has been implemented in FY 2013 to clear all deficit balances.

Estimated Implementation Date: 05/31/2014

Responsible Person: Lynne Culverhouse, Director for Budget and Resource Planning

(4) Revise Method to Estimate Funds for Central Fee Benefits Cost Centers

All cost centers funded from general funds execute transfers at the beginning of the fiscal year, based on total budgets for salaries and wages, to ensure sufficient funding exists to cover benefits expenses. Estimated benefits to be paid to designated cost centers are maintained in central fee benefits cost centers. During fiscal year 2012, there were 16 such cost centers with ledger activity, and 15 had activity during fiscal year 2013. During payroll distributions, benefits expenses are charged to the central fee benefits cost centers.

During the review of the central fee benefits cost centers, we noted 10 (63%) of the 16 cost centers that had expenses during fiscal year 2012 had a deficit or surplus balance of at least 10% when compared to the total amount transferred. For fiscal year 2013, 11 out of 15 (73%) cost centers are projected to carry a deficit or surplus balance of at least 10%. The table below depicts a summary of our analysis:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Budgeted Salaries</th>
<th>Salaries Paid</th>
<th>Transfer Amount</th>
<th>% Transferred</th>
<th>Surplus/(Deficit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$ 27,841,369</td>
<td>$ 26,886,973</td>
<td>$ 7,680,210</td>
<td>28%</td>
<td>$ 675,834</td>
</tr>
<tr>
<td>2013</td>
<td>$ 28,009,390</td>
<td>$ 30,829,216*</td>
<td>$ 8,593,417</td>
<td>30%</td>
<td>$ 417,661</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$ 55,850,759</td>
<td>$ 57,716,189</td>
<td>$ 16,273,627</td>
<td>29%</td>
<td>$ 1,093,495</td>
</tr>
</tbody>
</table>

(*) Denotes estimated amount. Complete data for Fiscal Year 2013 was not available at the time of this analysis.
The UTD Budget Policy for Fiscal Year 2013, Section 3.5.2, provides guidance on the dollar amounts to be transferred to the central fee benefits cost centers. The policy also states that for employees whose annual salaries are at least $90,000, 30% of the salaried amount is required to be transferred. For all other employees, 25% is the required amount.

The percentages of salaries and wages required to be transferred per the UTD Budget Policy are not accurate. As a result, while the appropriate percentages (approximately 29%) of salaries and wages were transferred at the beginning for fiscal years to the central fee benefits cost centers, large deficit and surplus balances existed.

**Recommendation:**

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.

**Management’s Response and Action Plan:**

Management concurs: A revised methodology to estimate and record budget transfers for staff benefits will be implemented during FY 14 to be applicable in the FY 15 budget process.

**Estimated Implementation Date:** 03/01/2014

**Responsible Person:** Lynne Culverhouse, Director for Budget and Resource Planning

(5) **Enforce the Budget Policy**

The Budget Policy was not enforced during Fiscal Year 2012. Specifically, the following areas were noted:

**Salary Increases Not Awarded in Accordance with UTD Budget Policy**

Merit increases and salary adjustments awarded during fiscal year 2012 did not receive proper approval, and proper documentation was not maintained to support the increases in rates of pay. Without appropriate approval and documentation, there is an enhanced risk of both noncompliance with policy and inappropriate adjustments being made.

Out of a random sample of ten employees that received an increase in their rate of pay, five (50%) were not properly authorized as they lacked the required signatures on the Personnel Action Forms. The average monthly pay for the five employees was $6,390 before the increase in pay rate, and was $8,380 after the increase in pay rate. The average increase in salary for the five employees reviewed was 27%. UTD Budget Policy 4.5.2 states, "Any request for an equity adjustment outside the regular budget process must include a written justification and be recommended by the appropriate Vice President, Executive Vice President and Provost, Executive Director or President." UTD Budget Policy 4.8.3 states, “Merit increases must be approved by the appropriate Vice President, Executive Vice

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President and Provost, or Executive Director."

Unallowable Transfers made during Fiscal Year 2012

We identified five unallowable budget transfers that were made during September 2012 and November 2012, totaling approximately $13 million, and two unallowable salary transfers totaling approximately $90,000. The unallowable budget transfers made were between cost centers funded with state appropriated funds and cost centers not funded with state appropriated funds. The unallowable salary transfers were made between faculty accounts and non-faculty accounts.

UTD FY13 Budget Policy, Section 2.2.2, provides details of where budgets funded by certain fund codes may be transferred. Section 2.3.1.2 states: “Available budget in faculty salary accounts cannot be moved to non-faculty salary accounts, except with the permission of the Executive Vice President and Provost.” This was not performed.

While a process does exist to review budget and salary transfers, the Budget Office does not have a process to document exceptions made to UTD Policy.

Documented Revenue Justifications Were Not Maintained

Documentation to justify revenue projection increases for Fiscal Year 2013 that were more than 25% of actual revenues for Fiscal Year 2012 were not maintained by the Budget Office. UTD Budget Policy, Section 5.1.14, states, “A justification must be submitted for any revenue projection that increases by 25% or more from the previous year’s actual revenues.”

As a result, there is an increased risk that revenue projections for Fiscal Year 2013 may not be realistic which could create deficit balances at the end of the fiscal year.

Recommendation:

The Budget Office should establish processes to ensure that compliance with the budget policies are monitored and enforced.

Management’s Response and Action Plan:

Management Concurs: The budget office will devise specific methodologies to ensure that the budget policy is monitored and enforced. Progress in this regard has already been made in the FY 14 budget process where established procedures where implemented for salary increases, merit and reclass/promotion and other salary adjustments. Additionally, during the FY 14 budget process, position management was formally introduced to enhance the compliance with the budget guidelines. Additional mechanisms to monitor the compliance of the budget policies will be developed during FY 14.

Estimated Implementation Date: 02/28/2014

(6) Enhance Communications

After departmental budgets have been approved, there is little or no communication to the departments that explains the purpose or reasoning over any adjustments that were made to the requested budgets. Best practices suggest communications would enhance the understanding of the strategic initiatives of the University, further align the goals of the departments with the goals of the University, and would reduce the risks that errors over the uploaded budget into PeopleSoft are made. Without proper and accurate communications, there is an enhanced risk that errors over the budget allocation may go undetected.

The communications regarding restricted expenditures should also be improved to accurately communicate appropriate expenditures that can be made with state appropriated funds. The Budget Policy provides restrictions for all fund codes between 2000-2999, such as for food and alcohol, flowers and non-cash gifts, and charitable donations. Fund code 2120, however, is the fund code used for the Research Development Fund which is also funded through state appropriations. Texas Education Code, Sec 62.097 states, “An eligible institution may use money received from the research development fund only for the support and maintenance of educational and general activities, including research and student services that promote increased research capacity at the institution.” Budget policy restrictions may not apply to these funds.

Recommendation:

The Budget Office should enhance the communications to both academic and non-academic departments during the budget allocation process.

Management’s Response and Action Plan:

Management Concurs: The Budget Office will work with the executive leadership to devise mechanism to enhance the communication to both academic and non-academic departments concerning budget allocations.

Estimated Implementation Date: 11/30/2013

Responsible Person: Lynne Culverhouse, Director for Budget and Resource Planning
(7) Review PeopleSoft Roles

During the review of security privileges that had been assigned within PeopleSoft to members of the Budget Office staff as well as other employees who had access to budget data, we noted that employees outside the Office of Budget and Finance had the ability to access and update information on critical budget related pages. The employees’ job duties would not necessitate the need for such access. This may have been caused by an error during role design, or job responsibilities may have transitioned from departments without an appropriate adjustment in the security roles. Inappropriate role assignments could result in an increased risk of fraud or errors being made and not detected in a timely manner.

Recommendation:

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.

Management’s Response and Action Plan:

Management Concurs; Security roles have been reviewed and updated during July/August 2013. A quarterly report will be generated of all users with access to budget information for validation. Unauthorized users or roles will be updated quarterly.

**Estimated Implementation Date:** 01/31/2014

**Responsible Person:** Lynne Culverhouse, Director for Budget and Resource Planning

Other Issues

Other issues, such as retaining documentation to support deficit balances carried by cost centers at fiscal year-end, enhancing the role of budget analysts, and synchronizing fund balance transfers were discussed with management. Management has acknowledged these issues and has agreed to take corrective action as needed going forward into future fiscal years.

Conclusion

Controls over the budget process should be strengthened to ensure the effectiveness and efficiency of operations, compliance with applicable laws, and the reliability and integrity of financial and operational information.
**APPENDIX A: Fund Type Definitions**

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education and General</td>
<td>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, (I).</td>
</tr>
<tr>
<td>Designated Funds</td>
<td>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.</td>
</tr>
<tr>
<td>Auxiliary Enterprise Funds</td>
<td>Funds received from external sources for the purpose of providing goods or services, or support to University members.</td>
</tr>
<tr>
<td>Restricted Funds - Contracts &amp; Grants</td>
<td>Funds whose purpose have been restricted or imposed by a grantor.</td>
</tr>
<tr>
<td>Plant Funds</td>
<td>Funds that are used for major capital activities and projects.</td>
</tr>
</tbody>
</table>