UNIVERSITY OF HOUSTON SYSTEM

INTERNAL AUDIT REPORT

UNIVERSITY OF HOUSTON SYSTEM

BUDGETING

REPORT NO. AR2019-19

UNIVERSITY OF HOUSTON SYSTEM
Internal Auditing Department
Houston, Texas 77204-0930
(713)743-8000
Fax: (713)743-8015

MEMORANDUM

TO: Mr. Peter K. Taaffe
Chair, Audit and Compliance Committee

Dr. Renu Khator
Chancellor/President, UHS/UH

FROM: Don F. Guyton
Chief Audit Executive

DATE: April 25, 2019

SUBJ: Internal Audit Report – UHS Budgeting

I have attached for your review the final draft of the above referenced internal audit report. This report has been distributed to/discussed with key personnel of the University of Houston System. This report is summarized as follows:

Executive Summary:

We performed a review of budgeting at the University of Houston System universities. Our primary objective of this review was to determine whether resources are being effectively and efficiently deployed under an adequate system of internal controls to help ensure the budget initiatives at each university are being achieved in compliance with statutes, regulations, and university policies. In our opinion, the University of Houston System universities have adequate internal controls to help ensure the budget initiatives are being achieved in compliance with statutes, regulations, and university policies. Although we noted no matters that we considered to be significant risk exposures and control issues, we did note opportunities for improvement in the following areas: budgeting system and customer satisfaction.

This audit report is scheduled to be included in the agenda materials for the May 16, 2019, meeting of the Audit and Compliance Committee of the Board of Regents. Please let me know if you have any questions.

Attachment

UNIVERSITY OF HOUSTON SYSTEM
INTERNAL AUDITING DEPARTMENT

UNIVERSITY OF HOUSTON SYSTEM BUDGETING

BACKGROUND:

We performed a review of the budgeting process at the University of Houston System (UHS) universities. The annual operating budget for each university is primarily driven by budget initiatives included in the Plan and Budget report, which is approved by the UHS Board of Regents (BOR). The annual budget cycle at each university typically begins in February and concludes upon approval of the budget at either the May or August BOR meeting. The Budget Office at each university is responsible for overseeing the preparation of the annual operating budget and the Legislative Appropriation Request, development of revenue projections, and providing support to colleges and divisions for budget operations. The budget directors help ensure that resources are properly allocated according to established guidelines and appropriate approval by the Board of Regents. At UH and UHCL, the college and division business administrators are directly involved in the budgeting process and are responsible for preparing the annual budget, entering budget data into the budgeting system, requesting budget revisions, and monitoring budget activity during the fiscal year. At UHD and UHV, these functions are centralized and performed by the Budget Office.

The table below includes information regarding staffing, departmental budget, and the annual operating budget for each System university.

University	Budget Office Employees	Department Budget FY 2019	Operating Budget FY 2019
UH/UHS	9.0	$922,010	$1.3 Billion
UHCL	4.0	$293,818	$133.1 Million
UHD	5.5	$394,546	$183.1 Million
UHV	3.0	$197,916	$66.8 Million

OBJECTIVES:

1. Determine whether the department's activities are helping accomplish its goals and objectives.

2. Determine whether resources are being effectively and efficiently deployed under an adequate system of internal controls and activities comply with statutes, regulations, and policies.

3. Determine whether there are adequate controls in place to assure the reliability and integrity of budgetary data in the university's financial accounting system.

4. Determine whether there are opportunities for standardization among departments/campuses.

SCOPE OF WORK:

We interviewed personnel responsible for budget operations, reviewed policies and procedures for planning and budgeting, reviewed the budgeting system for access, conducted a customer satisfaction survey, and performed other audit procedures, as appropriate.

CONCLUSION:

In our opinion, the University of Houston System universities have adequate internal controls to help ensure the budget initiatives are being achieved in compliance with statutes, regulations, and university policies. Although we noted no matters that we considered to be significant risk exposures and control issues, we did note opportunities for improvement in the following areas: budgeting system and customer satisfaction.

Appendix A lists the areas where there are opportunities for improvement, recommendations that will enhance the control environment in these areas, and management's responses.

Don F. Guyton
Chief Audit Executive
March 27, 2019

APPENDIX A

OPPORTUNITIES FOR IMPROVEMENT

Hyperion Planning and Budgeting System

Currently, the universities use different budgeting information systems. The UH Budget Office implemented Hyperion Planning and Budgeting (Hyperion) for budget development and reporting for the FY 2018 budget cycle. The UHCL Budget Office began implementing Hyperion in October 2018 with full implementation expected by August 2019 for the FY 2020 budget cycle. The UHD and UHV Budget Offices use the Budget Development Module (BDM) for budget development, which was previously used by UH and UHCL.

Hyperion offers the following improvements to budget development and reporting that are not available in BDM:

- Enhanced budget development, including three years of actual historical data
- Enhanced reporting capability through budget to actual summary reports by college/division and department
- Streamlined salary budgeting process by utilizing salary pools

Recommendation (UHD and UHV): Management should work with the UH Budget Office to implement Hyperion, which will enhance the budget development process and reporting capabilities.

Management's Response (UHD): The UHD Budget Office will begin implementing Hyperion with full implementation expected by August 31, 2020 for the FY 2021 budget cycle.

Management's Response (UHV): At the UH Budget Office's request, UHV will begin implementing Hyperion with full implementation expected by August 31, 2021 for the FY 2022 budget cycle.

Customer Satisfaction

A customer satisfaction survey was distributed to various college and division business administrators at each university to obtain feedback regarding the budget process, including budget preparation and implementation, budget operations, and budget projections and reporting. Based on the results of the customer satisfaction surveys, we determined that individuals at all universities were satisfied with the budgeting process, including the assistance provided by the budget office, the budget control function, and clarity of the budgeting process timeline.

At UH, individuals also indicated satisfaction with having three years of actual historical data and the reporting capabilities in Hyperion. In addition, individuals suggested the following opportunities to enhance the budgeting process:

- Dedicate additional resources to assist with complex topics and numerous ad-hoc requests
- Update training resources, including providing guidance on budgeting best practices
- Enhance forms used in the budget process
- Budgeting for vacant positions

Recommendation (UH): Management should consider implementing the potential enhancements to the budgeting process relating to additional staffing, training, forms, and system functionality.

Management's Response (UH): We have developed a solution to properly account for vacant positions in Hyperion, which will be implemented for the FY 2020 budget cycle. In addition, we plan to dedicate adequate resources to meet ad-hoc requests and assist colleges and divisions with complex tasks; update training materials, as appropriate; and work with Information Technology to determine the scope of modifying and integrating the forms into PeopleSoft workflow, as appropriate. We expect to implement these actions by August 31, 2020.

University of Houston System
Internal Auditing Department

UHS Budgeting - AR2019-19
Action Plan

Est. Compl. Date	Responsibility for Action Name/Title	Action To Be Taken
Risk Level:	**High** **Medium** **Low**	
August 31, 2020	Theresa Meneley Executive Director, Budget, Procurement & Contracts UHD Budget Office	Work with the UH Budget Office to implement Hyperion as its budget development and reporting system.
August 31, 2021	Karen Sanders Budget Director UHV Budget Office	Work with the UH Budget Office to implement Hyperion as its budget development and reporting system.
August 31, 2020	Barbara Duarte Assistant VP, Budget and Analysis UH Budget Office	Consider implementing potential enhancements to the budgeting process relating to resources, training, forms, and system functionality.

Note: Supporting documentation for actions implemented or updated management's responses for actions partially or not implemented should be furnished to the Internal Auditing Department by the estimated completion date.