Digest of
A Follow-Up Audit of Higher Education Personnel Budgeting Practices

Chapter I: Introduction

This report is a follow-up to *A Performance Audit of Higher Education Personnel Budgeting Practices* that was published in July 2007. While higher education has implemented some of the recommendations made in the 2007 audit, more improvements can still be made. In the 2007 audit, we examined issues related to personnel and nonpersonnel budgeting practices. This report will discuss what improvements have been made and which recommendations have been implemented.

Chapter II: Reported Carryforward Balances Have Become More Transparent

Reported Carryforward Balances Are More Transparent, but Accuracy Is Still an Issue. Institutions of higher education have improved their reporting of carryforward balances on their expenditure reports. In the 2007 audit, we found and reported that institutions of higher education were artificially lowering their reported carryforward amounts. Since the 2007 audit, institutions of higher education now report all of their carryforward amounts on their expenditure reports. Most of the deductions or encumbrances the individual institutions reported were for obligations that require payment beyond the end of the fiscal year. However, some deductions or encumbrances reducing reported carryforward balances are still not accurate.

Definition of Carryforward Balance Needs to Be Consistent for All of Higher Education. While institutions of higher education are more transparent in their reporting of carryforward balances, we found inconsistencies in the manner that institutions were reporting this information. We also found that tighter definitions of acceptable means for reporting carryforward balances are needed to provide consistency among the institutions of higher education and to reduce the possibility of inaccurately lowering reported carryforward balances in the future.

Chapter III: Position Vacancies Are Better Tracked, but Reporting Needs More Accuracy

Vacancy Reporting Is Moving in the Right Direction, but Improvements Can Still Be Made. As a result of the 2007 audit, all institutions of higher education are now required to track and report vacancies on a report called the V-1 (vacancy) report. While this new reporting mechanism is a step in the right direction, we found that the reporting of how monies saved from position vacancies are being applied lacks accuracy. We also found that the Board of Regents should consider modifying the V-1 reports in order to reconcile them with year-end fiscal reports to help reduce the significant amount of discrepancies that still exist between budgeted and actual full-time-equivalent (FTE) employees at some institutions of higher education.

Reported Vacant Positions That Are Funded Have Significantly Decreased. While a disconnect between budgeted and actual FTEs still exists, our review of higher education's vacancies has shown that the amount of vacant positions reported by most institutions of higher education has decreased. In total, seven of the nine reviewed institutions of higher education reduced their reported vacancies by 277 FTEs since fiscal year 2006. Snow College and the College of Eastern Utah were not included in this analysis because of problems with their reporting of FTEs at the time of the 2007 audit.

Chapter IV: Budget Process For Higher Education Can Still Be Improved

Nonpersonnel Budgets Still Need to Be Better Aligned with Actual Expenditures. Reviewing both budgeted amounts and actual expenditures showed that the majority of institutions were able to stay within their budgeted amounts for expenditures in their personnel budgets. However, some schools are still significantly overspending their budgeted amounts in the nonpersonnel category. While institutions of higher education are challenged with the task of budgeting one year in advance, variances in nonpersonnel budgets are still excessive for some institutions of higher education.

Formal Review by Regents Regarding Budget Discrepancies Has Not Been Implemented. It is important for a review process to occur to help reduce the large negative variances most colleges and universities are experiencing in their nonpersonnel budgets. In the 2007 audit, it was recommended that the Board of Regents review submitted budgets along with actual expenditures to ensure an acceptable level of accuracy. If budgeted amounts for an institution of higher education do not fall within an acceptable range, the Board of Regents should require the institution to report why. We reiterate this recommendation again in this audit and recommend that the Board of Regents develop an acceptable range for variances in personnel and nonpersonnel budgets.

REPORT TO THE

UTAH LEGISLATURE

Report No. 2009-11

A Follow-Up Audit Of Higher Education Personnel Budgeting Practices

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Chapter I
Introduction

In July 2007, our office released an audit titled *A Performance Audit of Higher Education Personnel Budgeting Practices* (the 2007 audit). This report is a follow-up to that audit. While the Board of Regents has implemented some of the recommendations made in the 2007 audit, more improvements can still be made. In the 2007 audit, we examined issues related to personnel and nonpersonnel budgeting practices. This report will discuss what improvements have been made and which recommendations have been implemented. Specifically, we found the following:

While the Board of Regents has implemented some of the recommendations made in the 2007 audit, more improvements can still be made.

- The reporting of carryforward balances has become more transparent, but what constitutes carryforward funds still needs to be clarified. To do this, the Board of Regents should consider clearly defining what can and should be subtracted from reported carryforward amounts and ensure that all institutions are reporting uniformly.

- Position vacancies are better tracked since the 2007 audit, but more can still be done. Higher education has taken some great strides to identify and document both vacant positions and the monies associated with those positions. While this vacancy reporting has addressed some concerns that were identified in the 2007 audit, the reporting of the application of turnover savings can improve. We also found that there is still a disconnect at some institutions of higher education between budgeted and actual full-time-equivalent (FTE) employees. Despite this, institutions of higher education have reduced their number of funded vacant positions.

- While individual institutions of higher education are moving in the right direction, submitted budgets are still not reflective of actual expenditures. The Board of Regents has yet to develop a formal review process and define acceptable variances for actual expenditures compared to budgeted amounts.

These issues will be discussed in more detail in Chapters II through IV of this report.

Board of Regents Have Oversight Responsibilities for Higher Education

The Legislature has vested the oversight responsibilities for the state's system of higher education in the Board of Regents.

The Legislature has vested the oversight responsibilities for the state's system of higher education in the Board of Regents. Among the Board of Regents' responsibilities is the review of individual institutions' operating budgets and their consolidation into one unified appropriation request. While individual institutions of higher education have significant autonomy, the Board of Regents does have oversight responsibility for the entire system of higher education in the state of Utah. ***Utah Code*** **53B-1-103(2)(a)** states:

> The board is vested with the control, management, and supervision of the institutions of higher education . . . in a manner consistent with the policy and purpose of this title and the specific powers and responsibilities granted to it.

The Legislature's purpose in creating a system of higher education under the purview of the Board of Regents was to help ensure a quality, efficient, and economical system of higher education. Figure 1.1 shows this legislative purpose.

Figure 1.1 ***Utah Code*** **53B-1-101 – Legislative Purpose for the Creation of the State Board of Regents.** The Legislative purpose for creating a system of higher education under the purview of the Board of Regents was to enhance quality, efficiency, and economy.

It is the purpose of this title:

(1) to provide a high quality, efficient, and economical public system of higher education through centralized direction and master planning which:

(a) avoids unnecessary duplication;
(b) provides for the systematic and orderly development of facilities and quality programs;
(c) provides for coordination and consolidation; and
(d) provides for systematic development of the role or roles of each institution within the system of higher education consistent with the historical heritage and tradition of each institution;

(2) to vest in the State Board of Regents the power to govern the state system of higher education consistent with state law and delegate certain powers to institutional boards of trustees and institutional presidents, and to vest certain powers in institutional boards of trustees and institutional presidents.

The Board of Regents has the power to, and has, delegated and vested certain powers to institutional boards of trustees and institutional presidents. *Administrative Rule* R121-3 states:

> Administrative responsibilities for institutional operations shall be delegated to the respective Presidents and institutional Boards of Trustees. The Board of Regents reserves to itself final authority to consider and act on the following matters:
>
> - Policies and Procedures
> - Executive Appointments
> - Master Planning
> - Budget and Finance
> - Legislation
> - Government Relations
> - Administrative Unit and Program Approval

Among the Board of Regents primary responsibilities is the final authority to consider and act upon policies and procedures as well as budgets and finance.

The Board of Regents is the final authority for approval of institutional budget proposals for recommendation to the Governor and the Legislature. Once money is appropriated to an institution through their education and general (E&G) line item, the institution has discretion in how to budget these funds. The focus of this follow-up audit is the E&G line item.

Audit Scope and Objectives

This audit examined the actions taken by the Board of Regents and institutions of higher education in response to the recommendations made in the 2007 audit.

Following the release of the 2007 audit, the Legislative Audit Subcommittee requested that an in-depth follow-up be conducted. In accordance with that request, this audit reviewed the five recommendations made in the 2007 audit. The audit examined the actions taken by the Board of Regents and institutions of higher education in response to the recommendations made. The recommendations from the 2007 audit are cited below; the chapter of this report where each recommendation is discussed is shown in parentheses.

1. We recommend that the Board of Regents work with the institutions of higher education to ensure that carryforward balances are accurately reported in order to improve the accuracy of the budgeting and reporting process. (Chapter II)

2. We recommend that the Board of Regents require institutions of higher education to track and report vacant positions. (Chapter III)

3. We recommend that the Legislature consider requiring the Board of Regents to submit an annual report to them, via the Office of the Legislative Fiscal Analyst, addressing budgeted vacant positions. (Chapter III)

4. We recommend that once unfilled vacancies have been adequately identified, the Board of Regents work with institutions to ensure that budgets better reflect past actual expenditures. (Chapter IV)

5. We recommend that the Board of Regents review submitted budgets along with actual expenditures to ensure an acceptable level of accuracy. If budgeted amounts for an institution of higher education do not fall within an acceptable range, the Board of Regents should require the institutions to report why. (Chapter IV)

To help ensure comparability among institutions of higher education, our review was similar to the 2007 audit in that it focused only on the education and general (E&G) line item appropriations for each school. Every institution of higher education has an E&G line item appropriation, which provides for the school's general operating budgets. Some schools, like the University of Utah, have other line items for functions such as the hospital. Because other schools do not have these functions, our audit work focused only on data relevant to the E&G line item. Our review included 9 of the 10 institutions of higher education in the State of Utah, the Utah College of Applied Technology was not included, but the focus was on the University of Utah and Utah State University.

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Chapter II
Reported Carryforward Balances Have Become More Transparent

Higher education has reported carryforward balances more transparently since the 2007 audit. However, a stronger definition or clearer guidelines for carryforward balances needs to be developed and consistently used by all institutions of higher education. Clearly defining guidelines for reported carryforward balances will improve the accuracy of the current budgeting and reporting process to ensure that only valid deductions or encumbrances are reducing reported carryforward balances.

Reported carryforward balances are more transparent. However, a stronger definition or clearer guidelines for reported carryforward balances is necessary.

In the 2007 audit, individual institutions were artificially lowering their reported carryforward balances by reporting individual departmental carryforward balances in a category known as "other deductions." For example, Utah State University reported a fund balance of $8,468,482 in fiscal year 2006, but zero dollars were reported as being carried forward because the university reported the full fund balance in the category of other deductions. However, Utah State reported in their fiscal year 2007 actual report that they carried forward $8,468,482 from fiscal year 2006.

In the 2007 audit, some institutions of higher education reported carryforward balances this way because the monies they allocated to their individual colleges and/or departments were not viewed as monies available to the central institution. The individual institutions would subtract these amounts from their reported carryforward balances and this practice was found to be an inappropriate way to lower the institutions' reported balances. Institutions of higher education now report all carryforward balances on their annual expenditure reports, but what constitutes legitimate deductions from reported carryforward balances needs to be developed for all of higher education by the Board of Regents.

Current Definitions of Carryforward Balances Are Vague

The Board of Regents defines a carryforward balance in *Utah Administrative Rule* R562-3.1.2, which states:

Funds Carried Forward Without Specifying Balance or Use Limits - The law authorizes higher education to keep unspent fund balances and carry them forward into the next fiscal year without specifying any limit on the balance that can be carried forward or limiting the uses of the funds.

Under *Utah Administrative Rule* R562-3.2.1 (implemented in July 2008), the Board of Regents encourages institutions to have a minimum carryforward balance:

> Institutions are encouraged to carry forward at least four percent of appropriated funds. Institutions should generally not carry forward more than seven percent of appropriated funds, unless there are justifiable reasons for an exception. Such reasons may include saving for new programs, large equipment purchases, and new construction. Encumbrances for outstanding purchase orders should be excluded when determining the final carryforward balance.

According to staff for the Board of Regents, the 4 to 7 percent carryforward amount was based on guidelines from the National Association of College and University Business Officers (NACUBO) and also agreed upon by the Legislative Fiscal Analysts. NACUBO recommended two to six months of reserves to mitigate risks associated with the loss of normal business activities; the 4 to 7 percent represents less than one month of reserves for institutions of higher education, and is the amount the Board of Regents chose to employ. One reason for the reserves is to maintain financial solvency in order to continue operations in difficult times for contingency purposes.

Encumbrances should be clearly defined to ensure that reported deductions from carryforward balances are for identified financial commitments.

The amounts deducted from the final reported carryforward balance, known as encumbrances, are a management tool used to reflect commitments in order to prevent overspending. Encumbrances allow organizations to recognize future commitments of resources prior to the actual expenditure. The Governmental Accounting Standards Board defines encumbrances as amounts "committed to pay for goods or services that were not received prior to the end of the fiscal year." While we agree with the use of encumbrances in financial reporting, their use should be clearly defined to ensure that reported deductions from carryforward balances are for indentified financial commitments.

Reported Carryforward Balances Are More Transparent, but Accuracy Is Still an Issue

Institutions of higher education have improved their reporting of carryforward balances on their expenditure reports. In the 2007 audit, we found that institutions of higher education were artificially lowering their reported carryforward amounts by reporting individual colleges and/or departments' carryforward balances within the institution as other deductions. Other deductions is a financial reporting category used by institutions of higher education. Monies were being subtracted from the fund balances under other deductions to arrive at the reported carryforward amount. This method was being inappropriately applied and was artificially lowering the reported carryforward amounts. However, since the 2007 audit, institutions of higher education now report all of their carryforward amounts on their expenditure reports. Most of the deductions the individual institutions reported were for obligations that require payment beyond the end of the fiscal year, and these encumbrances were reported on the expenditure reports.

In the 2007 audit, individual institutions were recommended to give a more accurate reporting of their carryforward balances.

Institutions of Higher Education Were Artificially Reducing Reported Carryforward Balances

As shown in the 2007 audit, most institutions of higher education were reporting an artificially reduced carryforward balance. Even though the institutions reported an artificially reduced carryforward balance at the end of their budget year, they then carried the full fund balance from the prior year to use as expenditures in the next year.

In the 2007 audit, some institutions of higher education reported an artificially reduced carryforward balance.

For example, in fiscal year 2006, the University of Utah reported a carryforward balance of $2,023,095. However, the amount reported on the actual expenditure report for fiscal year 2007 showed a prior year carryforward balance of $21,023,095. The remaining $19 million was made up of departmental or individual colleges' carryforward balances and was not, from the universities' and colleges' perspectives, considered part of the central universities' monies to use. This $19 million was clearly carryforward monies but were not being reported as such.

Likewise, Utah State University was also reporting an artificially reduced carryforward balance. As previously mentioned, in fiscal year

2006, Utah State reported a fund balance of $8,468,482, but zero dollars were reported as being carried forward because the university reported the full fund balance in the category of other deductions. However, Utah State reported in their fiscal year 2007 actual report that they carried forward $8,468,482 from fiscal year 2006. Other institutions of higher education were also artificially reducing their reported carryforward balances in a similar manner, resulting in reported carryforward balances being significantly reduced.

Reporting of Carryforward Balances Has Improved, But Some Deductions Still Not Accurate

Since the 2007 audit, improvements in the reporting of carryforward balances have occurred. For example, the University of Utah showed a net carryforward amount of $15,396,178 at the end of fiscal year 2007. When the following year's actual expenditures report was reviewed, it showed that the amount of $15,396,178 was reported as being carried forward from the previous year. Utah State University also showed an accurate reporting of their carryforward balances. This is an improvement from the 2007 audit and shows that the University of Utah, Utah State University, and other institutions of higher education are moving in the right direction.

In the 2007 audit, individual institutions were recommended to give a more accurate reporting of their carryforward balances. Figure 2.1 shows the amounts of the carryforward balances reported for fiscal year 2008 by each of the reviewed institutions of higher education. While most institutions of higher education reported an accurate carryforward amount, some schools reported an inaccurately reduced carryforward amount.

Figure 2.1 Some Institutions of Higher Education Inaccurately Reported Carryforward Balances. This figure shows the carryforward balances, as reported by higher education for fiscal year 2008**.**

School	Fund Balance	Outstanding Purchase Orders/Other Deductions	Reported Carryforward Amounts	Carryforward % of Appropriated Funds
U of U	$ 5,964,315	$ 0	$ 5,964,315	1.7 %
USU	7,769,312	1,391,322	6,377,990	3.7
SUU	3,490,719	0	3,490,719	6.6
WSU	3,308,133	3,135,233	172,900	0.2
UVU	8,009,613	7,035,795	973,818	0.8
Dixie	2,197,294	198,739	1,998,555	6.4
SLCC	9,125,210	2,991,770	6,133,440	6.0
Snow	2,209,153	1,000,000	1,209,153	4.6
CEU	842,979	0	842,979	4.9

The carryforward is the amount remaining beyond expenditures and encumbrances. The fund balance is the amount remaining beyond expenditures; for example, the University of Utah shows $5,964,315. The next category, outstanding purchase orders/other deductions, consists of funds that are for encumbrances; for example, the University of Utah shows zero dollars. Subtracting the outstanding purchase orders/other deductions from the fund balance will give the carryforward amount; the University of Utah shows $5,964,315. The carryforward percentage of appropriated funds column is the percentage of appropriated funds that were carried forward. According to administrative rule, the target for this number is 4 to 7 percent.

Two instances of high reported deductions from carryforward balances illustrated in Figure 2.1 were examined. Specifically, Utah Valley University reported an amount of over $7 million and Weber State University reported an amount of over $3 million. Reported deductions for Utah Valley University can be attributed to the costs of becoming a university. The university received a significant amount of one-time money for the conversion which was not spent by the end of the fiscal year. However, only about $3.5 million could be attributed to valid deductions or encumbrances from the reported carryforward balance.

While the transparency of reported carryforward balances has improved, the Board of Regents needs to clearly define what constitutes an accurate carryforward balance for reporting purposes.

Weber State University reported over $3 million in deductions from the carryforward balance. In examining those deductions, only $1.1 million could be directly attributed to encumbrances for purchase orders for the following fiscal year. The remaining amounts were monies spoken for, but not committed for the next fiscal year. Though Weber State University showed a breakdown of these deductions, only $1.1 million can be considered an accurate deduction from the carryforward amount. While the transparency of reported carryforward balances has improved, the Board of Regents needs to clearly define what constitutes an accurate carryforward balance for reporting purposes.

Definition of Carryforward Balances Needs to Be Consistent for All of Higher Education

One way to ensure the accuracy in reporting is to have a uniform definition of encumbrances.

As previously mentioned, one issue with carryforward balances found in the 2007 audit was that these funds were being artificially reduced by individual department carryforward balances being reported as other deductions; in some cases, this practice is still occurring. It was recommended that the Board of Regents work with the institutions of higher education to ensure that carryforward balances are accurately reported. One way to ensure the accuracy in reporting is to have a uniform definition of encumbrances.

Of the nine colleges and universities reviewed in this audit, only two consistently redefined other deductions as outstanding purchase orders. Outstanding purchase orders is the name of the category used to show deductions from the reported carryforward balance. In fiscal year 2007, all schools had changed the category of other deductions to outstanding purchase orders. However, all but two institutions reverted back to defining the carryforward deduction column to other deductions for fiscal year 2008. An official from one institution stated that the intent of the other deductions category was to show any commitments against the carryforward balance. This official surmised that the category outstanding purchase orders was too narrow of a description for commitments against the carryforward balance because there could be legitimate encumbrances that are not necessarily purchase orders.

Review of Other Deductions from Carryforward Balances Identifies Potential Problems

When reviewing the institutions' deductions from the fund balance, we found that most deductions appeared to be legitimate deductions or encumbrances, but some were not. We also found that some institutions are inconsistent in their practices of reporting deductions from the carryforward balances. The majority of the institutions that lowered their fund balance by these other deductions or encumbrances provided a list of items the deductions or encumbrances were committed to on the actual expenditure reports. The following are some examples of deductions:

Most deductions appeared to be legitimate deductions or encumbrances, but some were not. We found that some institutions are inconsistent in their practices of reporting carryforward balances.

- Purchases for equipment that was approved at the end of the year but was not going to be paid until after the budget year.
- Fuel and power reserves that have to be paid back.
- Current-year vacations and early retirement accruals.

Some institutions of higher education have added line items below the carryforward balance line that describe what the deductions were and the amounts for the deductions; an example is shown in Figure 2.2.

Figure 2.2 One Institution of Higher Education's Description and Amounts for Deductions from Their Carryforward Balance. One institution of higher education itemizes their deductions from their reported carryforward balance for fiscal year 2008.

Purpose of Encumbrance (Other Deduction)	Amount of Deduction
Encumbered Purchase Orders	$ 3,544,016
Departmental Balances	2,977,933
BioTech Partnership	316,669
Fuel & Power	134,812
Background Checks	25,000
Engineering Initiative	37,365

Figure 2.2 illustrates how one institution of higher education was transparent in the way they showed what deductions will reduce the carryforward balance at the end of the fiscal year. However, one

Saving for a future purchase is acceptable, but departmental balance is clearly a carryforward amount and should be reported as such.

deduction in particular, cannot be considered a legitimate encumbrance. The departmental balances deduction in the amount of $2,977,933 was for departments within the institution to purchase computers. The problem with this is that the departments were saving over a two year period to purchase the computers. A legitimate encumbrance would be for services or goods in which a financial commitment has been made for the following fiscal year. While we do not question the legitimacy of saving for a future purchase, this departmental balance is clearly a carryforward amount because money is not yet committed and should be reported as such.

Figure 2.2 identifies how some institutions of higher education are being more transparent in their reporting of deductions from reported carryforward balances. While we acknowledge this transparency, not all of the currently reported deductions can be considered legitimate encumbrances.

Other institutions of higher education showed a similar incorrect and inconsistent use of a list that included encumbrances and other categories.

Other institutions of higher education showed a similar incorrect and inconsistent use of a list that included encumbrances and other categories. For example, one school showed encumbrances along with a list of various other items affecting their reported carryforward balance. When we questioned the school about their reported carryforward balance, they acknowledged that only the line item for encumbrances was actually committed for the next fiscal year. Some institutions did not list out their deductions from the carryforward balance, but instead detailed their transfers.

These examples demonstrate some of the inconsistencies that are occurring in the reporting of deductions from carryforward balances and shows that more uniform reporting and definitions of deductions from carryforward balances are required. When institutions of higher education report carryforward balances and encumbrances in varying manners it makes it very difficult from an oversight perspective to see what and how much is reducing the reported carryforward balance.

Under current administrative rules, which target a maximum carryforward balance of 7 percent, there could be an incentive to reduce reported carryforward balances, as done in the past.

Without Clearly Defined Carryforward Reporting Rules, Incentives May Be Created to Reduce Reported Balances

Under current administrative rules, which target a maximum carryforward balance of 7 percent, there could be an incentive to reduce reported carryforward balances, as done in the past. *Utah Administrative Rule* R562-3.3 states:

> The Board will expect a report each October 1 from institutions whose non-lapsing balances exceed the seven percent guideline for the most recent fiscal year.

According to Figure 2.1 (illustrated previously in this chapter), all reviewed institutions of higher education reported carryforward percentages below 7 percent. However, if individual institutions of higher education are required to report when they exceed the 7 percent guideline, an incentive may be created to reduce their reported carryforward balances. As it stands, individual institutions report their net carryforward amount. If the category of acceptable deductions from the net carryforward amount is not clearly defined, when carryforward balances grow, they could be reduced for reporting purposes.

We did not find problems currently with institutions of higher education intentionally lowering their reported carryforward balances artificially. Problems related to inaccurate reductions in carryforward balances identified in this audit were attributed to a lack of clear guidelines. However, when the economic climate improves and eliminates the need for institutions to cut their budgets, it may become a problem again. As previously stated, tighter definitions are needed to provide consistency among the institutions of higher education. Tighter definitions of what constitutes acceptable reporting of carryforward balances will not only encourage uniformity in reporting, but will also reduce the possibility of inaccurately lowering reported carryforward balances in the future.

Problems related to inaccurate reductions in carryforward balances identified in this audit were attributed to a lack of clear guidelines.

Recommendations

1. We recommend that the Board of Regents better define what constitutes a carryforward balance for institutions of higher education to ensure that only obligated funds are subtracted from reported balances.

2. We recommend that the Board of Regents require institutions of higher education to clearly report on the actual expenditure reports what the deductions from the carryforward balance are.

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Chapter III
Position Vacancies Are Better Tracked, But Reporting Needs More Accuracy

Higher education has improved their position vacancy reporting since the 2007 audit, but more improvements can still be made. Specifically, we found that higher education now has a vacancy reporting mechanism in place that was lacking at the time of the 2007 audit. While the new vacancy reporting mechanism for institution of higher education is a step in the right direction, we found that the Board of Regents could take the following actions to improve the reporting mechanism:

Higher education has improved their position vacancy reporting since the 2007 audit, but more improvements can still be made.

- Require institutions to report the amount of turnover savings being applied to personnel and nonpersonnel functions. One concern we found with the new vacancy report is the accuracy of reported savings from position vacancies. For example, all schools reported that monies saved from vacant positions were applied to personnel costs or budget cuts, even though these monies were also used in nonpersonnel functions.

- Modify the vacancy reports to coincide with the budget and actual reports. Specifically, consider reconciling the vacancy reports to the budget and actual reports and require the vacancy reports to identify the full-time-equivalent (FTE) count of position vacancies. This is important because some large discrepancies between budgeted and actual FTE employees are still occurring at some of the institutions of higher education. For example, the University of Utah reported only 67 vacant positions on their vacancy report, but when we compared their budgeted and actual FTE counts, we identified 307 vacancies.

Institutions of higher education are moving in the right direction. We also found that, overall, higher education has reduced the number of funded positions that are vacant since the 2007 audit.

Higher education has reduced the number of funded vacant positions since the 2007 audit.

In response to the 2007 audit, the Board of Regents developed a reporting mechanism to account for funded vacancies, and institutions of higher education submitted this new report for the first time in the fall of 2008. In the 2007 audit, we found that no control or reporting existed to monitor long-term vacant positions that were receiving funding from the Legislature. Cited below is an excerpt from the 2007 audit that illustrates this concern:

> If an institution of higher education chose to continually budget for a position that they no longer intend to fill, this budgeted position would continue to receive personnel increases from the Legislature.... Because institutions of higher education do not track or report position vacancies we were unable to determine if institutions were intentionally leaving positions unfilled for long periods of time, but without controls, the potential is there.

The development of the new vacancy reporting mechanism is a positive step, but this reporting mechanism can still be improved.

In the 2007 audit, we found that the unspent monies in personnel primarily arose from unfilled positions, but we were unable to determine the length of time positions were unfilled because higher education did not track or report this information. The new position vacancy reports identify vacant positions, the length of time that reported positions have been vacant, monies associated with the reported vacancies, and the application of those unspent monies. Although the development of this reporting mechanism is a positive step, we believe that the mechanism can still be improved.

Vacancy Reporting Is Moving In the Right Direction, but Improvements Can Still Be Made

As a result of the 2007 audit, all institutions of higher education are now required to track and report vacancies on a report called the V-1 (vacancy) report. We found that the reporting of how monies saved from position vacancies are being applied lacks accuracy. We also found that the comparison of budgeted and actual FTE counts reveals some very large discrepancies, particularly at the University of Utah. The V-1 report helps explain a number of the vacancies at most, but not all institutions. While discrepancies still exist between budgeted and actual FTE employees of the institutions of higher education, institutions are moving in the right direction.

As previously mentioned, the intent of the V-1 report is to identify vacant positions, the length of time positions have been unfilled, the amount of money associated with each vacancy (turnover savings), and the use of turnover savings. The V-1 report is then submitted to the Board of Regents, the Governor's Office of Planning and Budget, and the Legislative Fiscal Analyst. It is anticipated that this report will be used during the annual budget process when compensation increases are determined for the upcoming budget year. Figure 3.1 illustrates an example of a V-1 (vacancy) report.

Figure 3.1 An Example of the Information Provided in the New V-1 Reports as of November 2008. In response to the 2007 audit, higher education now reports position vacancies, the money associated with reported vacancies, and how the money is being spent.

Title	Base Budget	Last Filled	How Savings Are Being Applied
Professor	$ 69,360	7/1/06	Recruiting costs and adjunct teaching
Adm. Asst.	26,198	1/1/08	Temporary administrative costs
Asst. Prof	90,000	7/1/06	Recruiting costs and adjunct teaching
Clerk	24,242	7/1/07	Temporary administrative costs
Librarian	42,616	7/1/08	Recruiting costs and adjunct teaching

Each institution of higher education is instructed to do the following in their V-1 reports:

- For all education & general (E&G) funded positions, take a snapshot as of September 1 and November 1.
- Remove all positions that are filled positions – leaving only vacant positions in the report.
- For the vacant positions, identify the title/position code, base budgets (E&G funds) and when the position was last filled.
- If an institution had associated expenditures with the vacant position (adjunct wages, recruitment costs) please identify in the notes section.

Regarding vacant positions, the V-1 report has addressed a serious control weakness identified in the 2007 audit.

Regarding vacant positions, the V-1 report has addressed a serious control weakness identified in the 2007 audit. Specifically, most institutions of higher education can now identify long-term vacancies and are now required to explain how monies being saved from vacancies are being applied. This will help higher education identify monies that should be budgeted in nonpersonnel instead of being maintained in personnel budgets.

Accuracy of Reported Application of Savings From Position Vacancies Could Improve

In the 2007 audit, we raised concerns over long-term vacant positions that institutions may not have intended on filling.

In the 2007 audit, we raised concerns over long-term vacant positions that institutions do not intend on filling. In that audit, we were unable to document the length of time a number of positions were vacant and the amount of money that was generated from each vacancy because the length of time positions were vacant was largely not tracked or reported by some of the institutions. The new vacancy report addresses these concerns to a degree. From this new report, we were able to identify a number of vacancies at each institution of higher education, the length of time each reported position has been vacant, and the amount of monies generated or turnover savings from these vacancies.

The Board of Regents could strengthen the current reporting mechanism by requiring institutions to report savings applied to both personnel and nonpersonnel functions.

One of the concerns that we have with the new vacancy report is whether the application of savings from position vacancies has been accurately reported. Most institutions reported that all savings from these position vacancies were utilized in personnel functions or absorbed from the recent budget cuts. We spoke with the budget directors for the University of Utah and Utah State University, and both agreed that these savings were also used in nonpersonnel functions. The Board of Regents could strengthen the current reporting mechanism by requiring institutions of higher education to report the amount of savings applied to both personnel and nonpersonnel functions.

Figure 3.2 shows that for fiscal year 2008 these turnover savings are significant. As previously mentioned, most savings in the current fiscal year were absorbed by recent budget cuts. Figure 3.2 shows positions budgeted for and vacant in each institution of higher education for fiscal year 2008, as reported by the individual institutions.

Figure 3.2 Vacancy Summary for Institutions of Higher Education. The new V-1 report creates a budgetary control that did not exist before and allows for better reporting of position vacancies and monies associated with those vacancies. This information was reported for the first time for fiscal year 2008 and the beginning of fiscal year 2009, as a result of the 2007 audit.

Reporting Period: September 3 to November 7, 2008		
School	**Vacant Positions**	**Total Budgeted for Position Vacancies**
University of Utah	67	$ 2,930,737
Utah State University	113	4,735,874
Southern Utah University	19	858,642
Weber State University	24	690,180
Utah Valley University	65	2,746,902
Dixie State College	14	879,220
Salt Lake Community College	101	3,875,664
College of Eastern Utah	6	482,665
Snow College	6	258,166
TOTAL	**415**	**$ 17,458,050**

This new reporting requirement appears to have cleaned up some long-term vacant positions that some institutions of higher education were maintaining on their records. As illustrated in Figure 3.2, there were a total of 415 vacant positions as of the reporting period from September 3 to November 7, 2008. These 415 vacant positions generated about $17.5 million in turnover savings for higher education in fiscal year 2008 through the end of the reporting period. According to the V-1 reports, most of these positions have been cut by the individual institutions of higher education as a result of recent budget cuts. While current budget cuts have absorbed most of these turnover savings, the V-1 reports can be strengthened by requiring institutions to identify the application of savings to personnel and nonpersonnel functions.

In the 2007 audit, seven reviewed institutions of higher education reported just over 830 vacant FTEs for fiscal year 2006, but for fiscal year 2008, all nine reviewed institutions of higher education only reported 415 vacant positions. While the vacancy reporting mechanism appears to have enacted a control that was lacking at the time of the 2007 audit, discrepancies still exist when comparing budgeted to actual FTEs.

Disconnect Between Budget Reports and Vacancy Reports Should Be Addressed

Every year institutions of higher education submit a document called the A-1 budgets. These documents contain the institutions' budgeted FTE counts, personnel budgets, and nonpersonnel budgets. At the end of the fiscal year, the institutions then submit an A-1 actual, which shows actual FTEs as well as personnel and nonpersonnel expenditures. (The budgeting process will be discussed in more detail in Chapter IV of this report.)

The Board of Regents should consider modifying the V-1 reports to coincide with the A-1 reports.

Limitations do exist when comparing reported vacancies on the V-1 to variances between budgeted and actual FTEs for each institution. These limitations include differing reporting periods, individual counts versus FTE counts, and the fact that the V-1 is a snapshot in a given period of time while the budgets and actuals take course over an entire year. The Board of Regents should consider modifying the V-1 reports to coincide with the A-1 reports. This could be done by reconciling the V-1 reports to the A-1 reports and requiring the V-1 reports to identify the FTE count of each position vacancy. Doing this would aid the Board of Regents in performing their oversight role and reviewing position vacancies. Despite these limitations, the V-1s can be used to not only identify vacant positions at a given period of time, but also to aid individual institutions in the personnel budgeting process.

We compared the institutions' V-1 and budget reports and found many of the institutions are not carrying a significant number of long-term vacancies in their personnel budgets. While an improvement from the prior audit, some discrepancies exist.

We compared the institutions' V-1 and budget reports and found many of the institutions are not carrying a significant number of long-term vacancies in their personnel budgets. While an improvement from the prior audit, some discrepancies do exist. Figure 3.3 identifies the discrepancies between the budget reports and the vacancy reports for three sampled institutions.

Figure 3.3 Reported Vacancies Compared to Budgeted and Actual Vacancies for Three Sampled Institutions. While the new vacancy report identifies position vacancies at a given period of time, some significant discrepancies exist when comparing the vacancy report to budgeted and actual FTEs.

Fiscal Year 2008			
School	**Difference Between Budgeted FTEs And Actual FTEs**	**Vacant Positions Reported on V-1**	**Difference Between Two Reports**
U of U	307	67	240
USU	171	113	58
Dixie	50	14	36

As previously mentioned, there are limitations to comparing the V-1 vacancy reports to budget and actual reports of the institutions of higher education. The most significant discrepancy identified when comparing the V-1 report to the budgeted and actual FTEs was at the University of Utah. For fiscal year 2008, the University of Utah's reporting identified about 307 more FTEs were budgeted for than were actually employed, but their V-1 report that was submitted in the fall of 2008 reported only 67 vacancies; this was a discrepancy of 240.

When we followed up on this discrepancy, officials from the University of Utah told us that the V-1 was very labor intensive, requiring a lot of people to interpret the reporting requirements. However the university was unable to explain the difference of 240 FTEs between the budgeted and actual FTE count when compared to their V-1 report. The University of Utah recently rolled out a position management program (computer software), at the University Hospital and plan on introducing this same software to the university in about a year. Officials for the University of Utah anticipate that this new software will help them better manage their budgeted positions at the university.

The budget directors for both the University of Utah and Utah State University have stated that the V-1 reports have helped their institutions get a better handle on position vacancies.

Utah State University budgeted for 171 more FTEs than they actually employed at the end of fiscal year 2008, and their V-1 report identified 113 vacancies; this was a discrepancy of 58. Utah State's discrepancy of 58 was more accurate than the discrepancy of 240 for the University of Utah. Utah State University currently uses software that allows them to more accurately report on their position vacancies. The budget directors for both the University of Utah and Utah State University have stated that the V-1 reports have helped their institutions get a better handle on position vacancies.

Reported Vacant Positions That Are Funded Have Significantly Decreased

Since the 2007 audit, the number of vacant positions reported by most institutions has decreased, which shows institutions are doing a better job in budgeting for these positions.

Our review of higher education's vacancies since the 2007 audit has shown that the number of vacant positions reported by most institutions has decreased, which shows institutions are doing a better job in budgeting for these positions. To obtain the fiscal year 2008 numbers, we used the same process as used in the 2007 audit. That process included taking the FTE count that was budgeted for within a fiscal year and comparing it to the FTE count that was actually employed at the end of the fiscal year. Figure 3.4 compares the number of vacancies at each institution as reported in the 2007 audit to vacancies for fiscal year 2008.

Figure 3.4 Vacancies Reported by Higher Education in Fiscal Years 2006 and 2008. When looking at budgeted and actual FTEs, we were able to document that higher education has reduced their number of reported vacancies.

School*	FY 2006 Vacancies	FY 2008 Vacancies
U of U	453	307
USU	203	171
SUU	(8)	8
WSU	22	(59)
UVU	70	66
Dixie	8	50
SLCC	81	9
Total	**829**	**552**

** In the 2007 audit, Snow College and the College of Eastern Utah were not included because of inconsistencies and inaccuracies in their reporting of FTEs over the previous three fiscal years. It should be noted that while we were not able to accurately document vacancies for Snow College and the College of Eastern Utah in the 2007 audit, we could document these numbers for this audit; however, we did not include them in this figure because of the prior inconsistency.*

According to Figure 3.4, we found that the amount of reported vacancies has decreased since the 2007 audit from 829 FTEs to 552 FTEs. The University of Utah decreased their reported vacancies by about a third, from 453 to 307. We also found that Utah State University decreased their reported vacancies by 32. Weber State University employed 59 more FTEs than they budgeted for in fiscal year 2008, but their fiscal year 2009 budget shows a correction for this.

Officials for the University of Utah reported that as a result of the 2007 audit, they have been trying to change the mindset at the university of, "it simply being easier to cut nonpersonnel budgets instead of cutting personnel budgets." This mindset is created because of the belief that institutions are more likely to get increases for personnel than for nonpersonnel. Following this mindset creates an incentive for institutions to overstate their personnel budgets to cover nonpersonnel expenses. Officials for the University of Utah report that their efforts to budget more appropriately for personnel has resulted in a variance of just over 1 percent in their personnel budgets through April 2009. The efforts of the University of Utah and other institutions of higher education helps move their budgeting practices in the right direction thus reducing the probability of incentivizing budget overstatements.

Officials for the University of Utah reported that as a result of the 2007 audit, they have been trying to change the mindset at the university of, "it simply being easier to cut nonpersonnel budgets instead of cutting personnel budgets."

While budgeting in difficult economic times can be challenging, as indicated by institutions forced to freeze or eliminate a number of vacant positions, we found that institutions of higher education are moving in the right direction by accounting for budgeted vacant positions. Though we recognize the improvements since the 2007 audit, budgeted and actual FTEs still need to come more into line at some of the institutions of higher education.

Recommendations

1. We recommend that the Board of Regents strengthen the current vacancy reporting mechanism by requiring institutions of higher education to report the amount of savings applied to personnel functions and the amount of savings applied to nonpersonnel functions.

2. We recommend that the Board of Regents consider modifying the V-1 (vacancy) reports to coincide with the A-1 (budget) reports. To accomplish this, the Board of Regents should consider reconciling the V-1 reports to the A-1 reports and require the V-1 reports to identify the FTE count of position vacancies.

Chapter IV
Budget Process for Higher Education Can Still Be Improved

Institutions of higher education need to do a better job of aligning expenditures with budgeted amounts. Variances are expected given that an institution of higher education has to develop a budget one year prior to its use. However, some personnel and nonpersonnel budgets have a wide variance between expenditures and budgeted amounts. The discrepancy between budgeted amounts and expenditures could be reduced if a formal review process by the Board of Regents was developed.

Institutions of higher education need to do a better job of aligning expenditures with budgeted amounts.

The 2007 audit reported that budgets for institutions of higher education were not representative of actual expenditures. Personnel budgets were often overstated to possibly aid in more personnel increases in legislative appropriations. However, the high personnel budgets often resulted in unspent personnel funds that, in turn, were used to address nonpersonnel needs. Institutions of higher education were often understating their nonpersonnel budgets which led to negative variances (expenditures greater than budgeted amounts) when looking at the budgeted amounts versus actual expenditures.

In the 2007 audit, we recommended that the Board of Regents review submitted budgets along with actual expenditures to ensure an acceptable level of accuracy. If budgeted amounts and actual expenditures for an institution of higher education did not fall within an acceptable range, the Board of Regents should require the institution to report why. This recommendation still needs to be implemented.

Institutions of Higher Education Have to Budget One Year In Advance

As done in the 2007 audit, we illustrate here the current budgeting process for higher education to help provide clarity. Higher education's budgets are broken down into two primary components: personnel services and nonpersonnel expenses. For purposes of this

Higher education's budgets are broken down into two primary components: personnel services and nonpersonnel expenses.

report, personnel needs are defined as the total compensation for all individuals. Nonpersonnel needs are all additional items necessary to provide a system of higher education. Nonpersonnel costs are broken down into four categories by higher education for purposes of financial reporting, they are: fuel and power, current expenses, travel, and equipment.

Because the time from budget preparation to implementation is about one year, it is important for institutions to accurately project and budget future expenses to ensure that funding requests adequately cover costs.

We illustrate their budgeting process primarily because the budgeting process for higher education differs from that of state agencies. Budgets for higher education are prepared about one year before they are actually implemented. Each institution of higher education submits its operating budget request to the Board of Regents. The Board of Regents then reviews each institution's operating budget, makes priority decisions for the entire system, and submits one unified budget request for the state's system of higher education to the Legislature. Because the time from budget preparation to implementation is about one year, it is important for institutions of higher education to accurately project and budget future expenses to ensure that funding requests adequately cover costs.

Once money is appropriated by the Legislature, it is important for entities to budget accordingly. Actual expenditures from previous years can be used in building an accurate budget. For state agencies, the Governor's Office of Planning and Budget uses previous-year actual expenditures as building blocks for current-year budgets. Higher education does not often use previous year actual expenditures in the building of current-year budgets, but the Board of Regents could use this information to aid in their oversight of the higher education system throughout the state.

In addition to the manner in which budgets are prepared, other differences between higher education's budgeting process and that of state agencies include the following:

- A significant portion of higher education's budget is based on tuition paid, so it is a variable income that fluctuates.

- Higher education has more autonomy than state agencies, and unlike many state agencies, higher education is neither solely covered by state administrative services nor solely dependent on state funds.

Each institution of higher education budgets and expends for personnel and nonpersonnel in a different manner and has a variety of differing circumstances and obstacles. For example, some institutions of higher education have a centralized budgeting process, while others have a decentralized budgeting process with multiple entities controlling multiple budgets. To control for these differences, as we did with the 2007 audit, our office reviewed institutions total budgeted amounts, the sum of all categories in the personnel and nonpersonnel budgets.

By the end of each fiscal year, institutions of higher education are covering their overall costs, but the manner in which they budget for personnel and nonpersonnel should be improved. The budgeted amounts for personnel and nonpersonnel do not accurately reflect actual expenses. Personnel budgets are being overstated, while nonpersonnel budgets are being understated. This budgeting system is primarily balanced by fund transfers from personnel to nonpersonnel, and from personnel surpluses from previous years that were carried forward.

By the end of each fiscal year, institutions of higher education are covering their overall costs, but the manner in which they budget for personnel and nonpersonnel should be improved.

Nonpersonnel Budgets Still Need to Be Better Aligned with Actual Expenditures

Reviewing both budgeted amounts and actual expenditures from fiscal years 2003-2008 showed that the majority of institutions were able to stay within their budgeted amounts for expenditures in their personnel budgets. However, some schools significantly overspent their budgeted amounts in the nonpersonnel category. Most notably, the University of Utah and Utah State University both overspent their nonpersonnel budgets and have done so since fiscal year 2003. The University of Utah and Utah State University are used as examples throughout this chapter, more information pertaining to the other seven reviewed institutions of higher education can be found in the appendix of this report.

Some schools significantly overspent their budgeted amounts in the nonpersonnel category, most notably, the University of Utah and Utah State University.

The University of Utah Needs to Improve Their Budgeting for Nonpersonnel

Because of significant negative variances in nonpersonnel budgets, the University of Utah needs to improve their budgeting for nonpersonnel. Figure 4.1 shows the budget variance for personnel and nonpersonnel for the University of Utah.

Figure 4.1 Nonpersonnel Budgets for the University of Utah Have Shown Wide Variances. The University of Utah's personnel budgets have remained within reasonable limits; however, their nonpersonnel budget has been overspent every fiscal year since 2003. Fiscal years 2003-2006 were previously reported in the 2007 audit.

U of U	Personnel		Nonpersonnel	
Fiscal Year	Difference Between Budget & Actual	Percent Variance	Difference Between Budget & Actual	Percent Variance
2003	$ 17,193,546	8.2 %	($ 12,539,198)	29.9 %
2004	15,224,082	7.0	(10,231,493)	23.5
2005	12,527,754	5.5	(16,273,696)	31.8
2006	17,413,295	7.2	(18,553,587)	32.0
2007	13,905,966	5.3	(24,648,568)	39.1
2008	11,340,655	4.2	(28,199,896)	32.3

The University of Utah has overspent their nonpersonnel budget by more than 23 percent since 2003, and has exceeded 30 percent since fiscal year 2005.

As illustrated in Figure 4.1, the University of Utah has overspent their nonpersonnel budget by more than 23 percent since 2003, and has exceeded 30 percent since fiscal year 2005. When speaking with officials from the University of Utah, they stated that their nonpersonnel appropriations have not increased and that the only way to provide for nonpersonnel expenditures was to use carryforward funds and take unused personnel funds and transfer them to nonpersonnel expenditures. Officials for the University of Utah reported at the conclusion of the audit, that for fiscal year 2008, the university had a number of developments totaling about $16 million in nonpersonnel expenses that were not budgeted for. Absent those unbudgeted expenses, totaling about $16 million, the variance percentage for nonpersonnel would have been smaller. In fiscal year 2008, the University of Utah used carryforward funds, unspent personnel funds, and used non-state-appropriated funds to help cover nonpersonnel expenditures.

We are still concerned with the very high negative variances in nonpersonnel budgets for the University of Utah. From fiscal year

2003 to 2008, the average percent negative variance for the University of Utah was 31.4 percent. Illustrated in Figure 4.1, the University of Utah's nonpersonnel negative variance for fiscal year 2008 was 32.3 percent, which exceeded their six-year average. As shown in Figure 4.1, even after the 2007 audit, a wide variance still exists between nonpersonnel expenditures and the budgeted amounts.

Figure 4.2 shows the budgeted amounts for personnel and nonpersonnel since fiscal year 2005 for the University of Utah.

Figure 4.2 The University of Utah's Budgets for Fiscal Year 2005 Through 2009. The University of Utah significantly increased their nonpersonnel budget in fiscal year 2008.

University of Utah Budget			
Fiscal Year	**Personnel**	**Nonpersonnel**	**Total**
2005	$242,073,736	$34,974,064	**$277,047,800**
2006	$257,914,420	$39,393,580	**$297,308,000**
2007	$276,994,351	$38,376,479	**$315,370,830**
2008	$282,268,689	$59,247,611	**$341,516,300**
2009	$294,690,528	$63,598,072	**$358,288,600**

Figure 4.1 showed the amounts by which the University of Utah's personnel and nonpersonnel expenditures varied from its budget. In Figure 4.2, we are able to see the total amount budgeted for personnel and nonpersonnel for the University of Utah. One improvement that can be seen in Figure 4.2 is the large increase in the nonpersonnel budget from fiscal year 2007 to 2008. As previously mentioned, officials from the University of Utah reported that since the 2007 audit they have been moving toward budgets that are more reflective of actual expenditures; this is reflective in their budgeting for nonpersonnel in fiscal year 2008.

Officials from the University of Utah reported that since the 2007 audit they have been moving toward budgets that are more reflective of actual expenditures

Though the variance between budgeted amounts and actual expenditures for the personnel and nonpersonnel categories are still high, the budgeted amounts in Figure 4.2 show that the University of Utah is budgeting more money for nonpersonnel expenditures. Officials for the University of Utah believe that for fiscal year 2009 the budgeted amounts and expenditures should be more aligned than previous years because of the effort to budget more appropriately.

Utah State University Also Needs to Improve Their Budgeting for Nonpersonnel

Because of significant negative variances in nonpersonnel budgets, Utah State University also needs to improve their budgeting for nonpersonnel. Figure 4.3 shows the personnel and nonpersonnel variances between what was budgeted and what was actually expended for Utah State University.

Figure 4.3 Nonpersonnel Budgets for Utah State University Have Been Overspent Since Fiscal Year 2003. Utah State has shown variances of 20 percent or greater in four of the six fiscal years shown. Fiscal years 2003-2006 were reported in the 2007 audit.

USU	Personnel		Nonpersonnel	
Fiscal Year	Difference Between Budget & Actual	Percent Variance	Difference Between Budget & Actual	Percent Variance
2003	$1,831,851	1.6 %	($1,502,081)	6.2 %
2004	(1,060,385)	.91	(6,137,661)	20.9
2005	2,145,869	1.77	(10,370,318)	33.9
2006	7,369,083	5.9	(12,443,232)	35.8
2007	8,521,859	6.6	(1,312,165)	5.6
2008	6,246,360	4.5	(11,331,059)	30.4

Utah State University has overspent their nonpersonnel budget every year since 2003.

As shown in Figure 4.3, Utah State University has overspent their nonpersonnel budget every year since 2003. In fiscal year 2007, Utah State appeared to have expenditures closely aligned with the budgeted amount. This was largely attributed to decreases in fuel and power and in current expenses for fiscal year 2007. In fiscal year 2008, Utah State overspent their nonpersonnel budget by 30 percent. Officials from Utah State attribute the large variances in nonpersonnel for fiscal year 2008 to one-time monies appropriated and spent that were not budgeted for. Like the University of Utah, Utah State used unspent personnel monies and carryforward balances to cover negative variances in nonpersonnel budgets.

We are still concerned with the very high negative variances in nonpersonnel budgets for Utah State. From fiscal year 2003 to 2008, the average percent negative variance for Utah State was 22.2 percent. Illustrated in Figure 4.3, Utah State's nonpersonnel negative variance for fiscal year 2008 was 30.4 percent, which exceeded their six-year average. As shown in Figure 4.3, even after the 2007 audit, the variance for nonpersonnel expenditures when compared with the budgeted amounts still appears too high.

Figure 4.4 shows the personnel and nonpersonnel budgets from fiscal years 2005 to 2008 for Utah State University.

Figure 4.4 Utah State University's Budgets for Fiscal Years 2005 through 2009. Since fiscal year 2008, Utah State has been increasing their nonpersonnel budgets.

Utah State University Budget			
Fiscal Year	**Personnel**	**Nonpersonnel**	**Total**
2005	$123,599,100	$20,249,700	**$143,848,800**
2006	$131,509,600	$22,297,100	**$153,806,700**
2007	$138,262,300	$22,055,300	**$160,317,600**
2008	$146,341,100	$25,908,700	**$172,249,800**
2009	$152,385,500	$26,950,100	**$179,335,600**

Figure 4.4 illustrates that Utah State University has consistently increased their personnel budget. However, in fiscal year 2008 we see that the university increased their nonpersonnel budget more than any prior year since 2005. Like the University of Utah, fiscal year 2008's variance for the budgeted amount versus the expenditure amount for nonpersonnel is still high, but budgeted amounts indicate that Utah State University is moving in the right direction in budgeting more appropriately for nonpersonnel expenditures.

While Utah States' negative variance in nonpersonnel is still high, monies budgeted for nonpersonnel indicate that the university is trying to budget more appropriately.

Formal Review by Regents Regarding Budget Discrepancies Has Not Been Implemented

We recognize that individual institutions of higher education are moving in the right direction in terms of budgeting more appropriately for nonpersonnel expenditures. However, we are still concerned that budgets for nonpersonnel are not more in line with actual or anticipated expenditures for some institutions. The Board of Regents currently does not compare or analyze budgets with actual expenditures for any of the institutions of higher education. Reviewing budgets and actuals submitted by the individual institutions could be a helpful control in decreasing the variances between the actual expenditures and the budgeted amounts.

The Board of Regents currently does not compare or analyze budgets with actual expenditures for any of the institutions of higher education.

In the 2007 audit, it was shown how the total variances or understatements for institutions of higher education are being generated across the four categories of nonpersonnel services that institutions of higher education budget for. When we combined fiscal year 2006 budgets for these four categories from all nine reviewed institutions of higher education, we found the following negative variances:

- $15.2 million for fuel and power
- $11.9 million for current expenses
- $2.6 million for travel
- $96,000 for equipment

These negative variances were generally covered by positive variances or overstatements in the institutions' personnel budgets. As we did in the 2007 audit, we reiterate the importance of reviewing budgeted amounts to ensure adequate coverage of anticipated expenditures.

As we did in the 2007 audit, we reiterate the importance of reviewing budgeted amounts to ensure adequate coverage of anticipated expenditures.

Looking at the same four categories, we see a similar occurrence for fiscal year 2008. Figure 4.5 illustrates the variances in nonpersonnel budgets for each of the nine reviewed institutions of higher education.

Figure 4.5 Variances in Nonpersonnel Budgets for Each of the Nine Reviewed Institutions of Higher Education for Fiscal Year 2008. As we found in the 2007 audit, significant variances still exist in the nonpersonnel budgets of most institutions of higher education.

School	Fuel & Power	Current Expense	Travel	Equipment
U of U	$ 3,799,562	($ 30,867,442)	($ 586,081)	($ 545,935)
USU	(609,349)	(8,637,139)	(1,354,457)	(730,114)
SUU	627,142	(1,176,265)	(205,514)	(285,115)
WSU	267,289	(1,654,199)	(297,679)	(323,089)
UVU	(361,752)	(357,819)	(622,012)	(1,949,430)
Dixie	124,706	(70,419)	(517,928)	(662,131)
SLCC	461,691	(339,761)	(330,210)	(675,751)
CEU	567,922	20,083	54,697	(160,540)
Snow	(1,448,758)	1,726,650	40,229	(568,056)
Total	**$ 3,428,453**	**($ 41,356,311)**	**($ 3,818,955)**	**($ 5,900,161)**

Figure 4.5 shows large variances in most categories of nonpersonnel for the individual institutions of higher education. The fuel and power category was the only category that, in total, had a positive variance. Totaling the expenses in Figure 4.5 shows that the University of Utah had a negative variance of about $28.2 million, and Utah State University had a negative variance of about $11.3 million. The variances in Figure 4.5 could be decreased if there was a review process in place that compared the prior-year's budget with prior year's expenditures to align the following year's budget.

It is important for a review process to occur to help reduce the large negative variances the colleges and universities are experiencing in their nonpersonnel budgets. In the 2007 audit, we recommended that the Board of Regents review submitted budgets along with actual expenditures to ensure an acceptable level of accuracy. If budgeted amounts for an institution of higher education do not fall within an acceptable range, the Board of Regents should require the institution to explain why. We repeat this recommendation here.

It is important for a review process to occur to help reduce the large negative variances the colleges and universities are experiencing in their nonpersonnel budgets.

Working with the individual institutions of higher education, the Board of Regents should determine the acceptable variances for higher education. If implemented, we believe that a suitable range or variance will help reduce the large negative variances seen in nonpersonnel budgets for most institutions of higher education. With adequate variances established, the Board of Regents would be a constant check to ensure that budgets are in line with anticipated expenses.

Recommendations

1. We recommend that the Board of Regents develop an acceptable range or variance when budgeted amounts are compared to actual expenditures.

2. We recommend that once an acceptable range or variance is established, the Board of Regents develop a formal review process to compare budgeted amounts with actual expenditures. If budgeted amounts do not fall within the acceptable range or variance, the Board of Regents should require the institutions to submit an explanation.

Appendix

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Appendix

As shown in the 2007 audit, the following figures illustrate the differences between budgeted amounts and actual expenditures, categorized by personnel and nonpersonnel services, for seven institutions of higher education. The columns labeled "Percent Variance" is the variance between budgeted and actual amounts compared to actual expenditures for personnel and nonpersonnel services, as determined with higher education. The information for the University of Utah and Utah State University can be found in Chapter IV of this report. Fiscal years 2003-2006 were reported in the 2007 audit and are shown here to provide clarity.

Similar to the 2007 audit, to ensure the comparability between institutions of higher education, our review focused only on the education and general (E&G) line item appropriations for each school. Every institution of higher education has an E&G line item appropriation, which provides for the schools' general operating budgets. Some schools, like the University of Utah, have other line item appropriations for functions such as the hospital. Because other schools do not have these functions, our audit work focused only on the data relevant to the E&G line item. The source data for these figures was the budgeted and actual amounts submitted by each institution of higher education to the Board of Regents.

Figure A-1 Southern Utah University (SUU)

	Personnel		Nonpersonnel	
Fiscal Year	Difference Between Budget & Actual	Percent Variance	Difference Between Budget & Actual	Percent Variance
2003	$226,553	0.8 %	$382,832	6.7 %
2004	329,759	1.1	(129,074)	1.9
2005	(46,447)	0.1	98,511	1.5
2006	674,447	2.0	105,621	1.5
2007	559,458	1.5	(970,735)	10.2
2008	398,456	1.0	(1,039,752)	9.2

Figure A-2 Weber State University (WSU)

Fiscal Year	Personnel: Difference Between Budget & Actual	Personnel: Percent Variance	Nonpersonnel: Difference Between Budget & Actual	Nonpersonnel: Percent Variance
2003	$427,554	0.6 %	(279,329)	2.2 %
2004	845,280	1.2	(639,002)	4.8
2005	2,342,294	3.1	604,231	4.5
2006	3,672,514	4.6	255,714	1.8
2007	1,869,828	2.2	(492,717)	3.2
2008	5,128,969	5.7	(2,007,678)	11.3

Figure A-3 Utah Valley University (UVU)

Fiscal Year	Personnel: Difference Between Budget & Actual	Personnel: Percent Variance	Nonpersonnel: Difference Between Budget & Actual	Nonpersonnel: Percent Variance
2003	$752,477	1.2 %	(1,054,047)	9.1 %
2004	(1,234,624)	1.7	97,801	0.9
2005	1,919,173	2.6	286,797	2.1
2006	4,016,378	5.1	1,044,447	7.5
2007	2,491,506	3.0	1,513,730	10.4
2008	4,386,195	4.7	(3,291,013)	15.0

Figure A-4 Dixie State College (DSC)

	Personnel		Nonpersonnel	
Fiscal Year	Difference Between Budget & Actual	Percent Variance	Difference Between Budget & Actual	Percent Variance
2003	$1,215,336	7.6 %	$1,290,359	30.6 %
2004	(470,812)	2.8	2,576,827	57.9
2006	2,104	.01	1,204,040	26.0
2006	247,725	1.3	410,658	7.9
2007	1,106,535	5.3	(73,044)	1.4
2008	1,359,455	5.6	(1,125,773)	17.7

Figure A-5 Salt Lake Community College (SLCC)

	Personnel		Nonpersonnel	
Fiscal Year	Difference Between Budget & Actual	Percent Variance	Difference Between Budget & Actual	Percent Variance
2003	$7,958,118	14.6 %	(4,691,977)	26.1 %
2004	5,534,131	9.7	(2,880,665)	15.9
2005	5,056,939	7.9	(867,976)	5.8
2006	4,309,304	6.3	340,681	2.2
2007	2,561,598	3.5	257,950	1.6
2008	3,890,643	5.0	(884,031)	4.3

Figure A-6 College of Eastern Utah (CEU)

	Personnel		Nonpersonnel	
Fiscal Year	Difference Between Budget & Actual	Percent Variance	Difference Between Budget & Actual	Percent Variance
2003	$413,395	4.7 %	$23,391	0.9 %
2004	156,210	1.7	(552,141)	21.2
2005	499,010	5.6	(108,113)	3.8
2006	218,394	2.3	(167,004)	4.9
2007	249,882	2.4	374,802	12.2
2008	1,004,106	8.3	482,162	11.7

Figure A-7 Snow College (SC)

	Personnel		Nonpersonnel	
Fiscal Year	Difference Between Budget & Actual	Percent Variance	Difference Between Budget & Actual	Percent Variance
2003	($112,767)	0.9 %	($437,850)	12.3 %
2004	(521,632)	4.0	(899,141)	21.5
2005	3,611,823	27.3	(21,760)	0.6
2006	207,482	1.2	(762,834)	16.4
2007	1,513,658	8.9	(2,365,116)	37.1
2008	1,721,418	9.2	(249,935)	4.3

Agency Response

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UTAH SYSTEM OF
HIGHER EDUCATION
Building a Stronger State of Minds℠

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June 18, 2009

Mr. John Schaff
Legislative Auditor General
W315 Utah State Capitol Complex
Salt Lake City, UT 84114-5315

Dear Mr. Schaff:

on behalf of the Utah System of Higher Education (USHE), thank you for the efforts and professionalism of the audit staff as they reviewed the budgets and fund balances of each of the system campuses in this follow-up audit. We appreciate the constructive approach of you and your staff, and have been pleased to fully cooperate. As you know, this audit is a follow-up audit to one conducted in 2007. In response to the 2007 audit on carry-forward balances, the State Board of Regents adopted policy R562 on fund balances in July 2008. Although still a new policy, it has already helped make improvements in the reporting of fund balances across institutions. We appreciate the acknowledgement in the follow-up audit for these improvements.

We acknowledge, as the follow-up audit points out, there are several areas where improvements can still be made, and we are working with our institutions to address these issues. The issue of reporting fund balances consistently has been a work in progress throughout fiscal year (FY) 2009, and it is a regular topic of discussion among institutional budget officers and finance vice presidents.

Attached is the USHE response to the audit. Where appropriate, USHE has provided additional commentary in response to the recommendations.

We look forward to responding to questions and suggestions as this audit report is presented to various legislative committees.

Sincerely,

William A. Sederburg
Commissioner of Higher Education

Attachment

Response to the Legislative Audit Follow-Up of Higher Education Budgeting Practices

The Utah System of Higher Education (USHE) appreciates the opportunity to respond to this follow-up audit dealing with budgeting practices. In particular, USHE appreciates the positive comments from the legislative auditors regarding improvements we have made in reporting of budgets, fund balances and vacancy savings from the turnover of employees. And yet, as the audit points out, there are still areas for improvement and we acknowledge those. We continue to work closely with the nine USHE institutions to improve related Regent Policies and budget reporting. We appreciate the flexibility in doing so.

In both the 2007 and the follow-up audits, the auditors do not question the need for fund balances just better reporting of the balances, and we agree. Following the 2007 audit, the Board of Regents approved policy R562 in July 2008 which addressed some of the recommendations from the prior audit including the reporting of fund balances. While the Regents do have a policy in place, we continue to work with the nine institutions to ensure its consistent application. The staff to the Board of Regents is committed to continue to work closely with institutions on improving the reporting consistency.

Policy R562 also addresses the need for institutions to maintain a positive fund balance. Any fund balances greater than seven percent must be reported to the Board of Regents explaining the variance. As shown on page 8 of the report, national budgeting standards recommend at least a two month fund balance for higher education institutions whereas a 7 percent fund balance is actually less than a month. Moreover, Northwest Accreditation Standard 7.B.7 states, "The institution maintains adequate financial reserves to meet fluctuations in operating revenue, expenses, and debt service." In this context, the standard set by the Regents for balances of between four and seven percent are very minimal. We hope that the Legislature takes into account these standards when considering higher education fund balances in the future.

As USHE works to make improvements, it is important to note that our combined efforts have been complicated somewhat by the implementation of significant budget cuts in fiscal years 2009 and 2010. These cuts have resulted in institutions downsizing the number of staff and faculty positions. This has required much time and planning as campuses have eliminated and/or frozen vacant positions. As a result of the budget cuts, budget and finance staff are struggling to meet an increased workload with fewer staff members.

As institutions deal with these budget cuts, USHE asks for continued flexibility and time in addressing the audit recommendations. While it is apparent that improvements can be made, some may take additional time to implement. The responses to the recommendations are as follows.

Response to Recommendations

Chapter 2

1. We recommend that the Board of Regents better define what constitutes a carryforward balance for institutions of higher education to ensure that only obligated funds are subtracted from reported balances.

Response: We concur. Regent Policy R562 on Fund Balances was implemented July 2008. It is a new policy and we are working with institutions to ensure its consistent application. This recommendation is already in process.

2. We recommend that the Board of Regents require institutions of higher education to clearly report on the actual expenditure reports what the deductions from the carryforward balance are.

Response: We concur. In FY 2008, the staff to the Regents, revised the reporting form for actual revenues, expenditures, and fund balances. Some institutions used the older form for FY 2009 which had less detailed information. This recommendation is already in process.

Chapter 3

1. We recommend that the Board of Regents strengthen the current vacancy reporting mechanism by requiring institutions of higher education to report the amount of savings applied to personnel functions and the amount of savings applied to nonpersonnel functions.

Response: We concur. The staff vacancy reports are a new reporting form for institutional budget officers. In FY 2009, budget officers began dealing with budget cuts resulting in the elimination and/or freezing of vacant positions which has complicated the reporting of vacant positions. We will continue to work on consistency in reporting.

2. We recommend that the Board of Regents consider modifying the V-1 (vacancy) reports to coincide with the A-1 reports. To accomplish this, the Board of Regents should consider reconciling the V-1 reports to the A-1 reports and requiring the V-1 reports to identify the FTE count of position vacancies.

Response: We will consider this recommendation; however, while this recommendation makes sense for state agencies, it would require some modification and manual labor to *gather this information to coincide with higher education hiring practices. For instance, since the fiscal year begins in the middle of summer—July 1-- many new faculty positions are still vacant until the employees arrive on campus in August. To improve accuracy, higher education reports a vacancy snapshot in September and also one in November.*

Chapter 4

1. We recommend that the Board of Regents develop an acceptable range or variance when budgeted amounts are compared to actual expenditures.

Response: This recommendation has merit, however, may be difficult to implement in the short run as it does necessitate considerable discussion and vetting among institutional budget officers and vice presidents. Further, the budget cuts have made it difficult to determine what would constitute an acceptable range. This recommendation will take some time to fully implement.

2. Once an acceptable range or variance is established, we recommend that the Board of Regents develop a formal review process to compare budgeted amounts with actual expenditures. If budgeted amounts do not fall within the acceptable range or variance, the Board of Regents should require the institutions to submit an explanation.

Response: We concur. However, as mentioned in the prior recommendation response, this will take time to implement.