

To: Matthew J. Davis '16, Undergraduate Association President

From: Michael J. Moody, CIA, CISA, CIG, CRMA, Institute Auditor 

Date: October 16, 2015

Re: Financial Analysis of the Undergraduate Association Budgeting and Expenditure Oversight Processes

The Audit Division has completed the advisory services provided to the Undergraduate Association (UA). The objective of this engagement was to provide financial analysis of the UA budgeting and expenditure oversight processes for the fiscal years of 2011 through 2015. Our analysis focused on the UA's financial state as of June 30, 2015 and the ways spending behavior has changed over time. We also reviewed the existing business processes that take place throughout the fiscal year, including budgeting and transferring of funds.

While our review identified recommendations for improvements to the process for budgeting and expenditure oversight, no issues of misappropriation of UA funds came to our attention. Our advisory observations represent opportunities to improve administrative processes, which may require actions such as enhancements of policies and procedures, changes in current practices, system enhancements or improved documentation by working with the Dean for Student Life (DSL) and other key stakeholders. Unless action is taken to address the observations we have identified, the Institute's ability to ensure that student organizations maintain prudent financial systems, including well-defined and communicated responsibilities and expectations, may be impaired.

The financial and spending structures used by UA within SAP to fund and track student groups' expenditure activities are complex. The UA spending structure consists of 311 unique cost objects, spread over two profit centers. Our review focused upon the two primary cost objects, which serve as a de facto parent account for student groups' financial funding activities:

- 2721398 – UA Umbrella Account
- 4133000 – UA Reserve Account

While the focus of our analysis is on these two accounts, we include data from all UA account activity within the overall analysis.

The following table is a breakdown of the UA's financial activity as it relates to the UA Umbrella and Reserve Accounts (UA accounts) for the past five fiscal years per the Institute's financial systems. The UA accounts ended fiscal year 2015 (FY15) with a deficit of approximately \$54K, while the overall deficit in all UA controls cost objects is approximately \$10,000 higher. Determining the drivers of this deficit, by reviewing the activities within the UA accounts, was the underlying catalyst for our engagement. Multiple and compounding conditions existed that lead to the UA deficit including: insufficient communication of financial position; inconsistent budget structures; and poor reconciliation procedures.

Fiscal Year	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total \$</u>	<u>Total %</u>
UA Umbrella (Account 2721398)							
Opening Balance	\$ 4,000	\$ 140,763	\$ 217,935	\$ 310,505	\$ 383,556	\$ 4,000	
Institute Funding	302,411	370,693	316,260	316,334	398,273	1,703,971	93%
Revenues	7,000	6,150	4,374	24,500	1,384	43,408	2%
Transfer from UA Reserve	14,049	-	-	-	86,160	100,209	5%
Total Sources of Funds - UA Umbrella	<u>323,460</u>	<u>376,843</u>	<u>320,634</u>	<u>340,834</u>	<u>485,817</u>	<u>1,847,588</u>	<u>100%</u>
UA FinBoard Student Group Funding	(121,170)	(186,238)	(134,184)	-	(770,641)	(1,212,233)	68%
UA Student Government Funding	(47,750)	(8,798)	-	(170,525)	(48,396)	(275,469)	15%
Operating Accounts & Other Expenditures	(13,310)	(14,703)	11,831	(76,455)	(58,531)	(151,168)	8%
Expense	(4,467)	(21,200)	(77,919)	(20,802)	(34,968)	(159,356)	9%
Transfers UA Reserve	-	-	-	-	-	-	0%
Total Uses of Funds - UA Umbrella	<u>(186,697)</u>	<u>(230,939)</u>	<u>(200,272)</u>	<u>(267,782)</u>	<u>(912,536)</u>	<u>(1,798,226)</u>	<u>100%</u>
Total Surplus/(Deficit) - UA Umbrella	<u>464,223</u>	<u>217,935</u>	<u>310,505</u>	<u>383,556</u>	<u>(54,397)</u>	<u>(54,397)</u>	
UA Reserve (Account 4133000)							
Opening Balance	95,909	82,560	83,760	84,160	85,060	95,909	
Revenue	700	1,200	400	900	1,200	4,400	
Transfer(To)/From UA Umbrella	(14,049)	-	-	-	(86,160)	(100,209)	
Total Surplus - UA Reserve	<u>82,560</u>	<u>83,760</u>	<u>84,160</u>	<u>85,060</u>	<u>100</u>	<u>100</u>	
Total Surplus/(Deficit)	<u>\$ 546,783</u>	<u>\$ 301,695</u>	<u>\$ 394,665</u>	<u>\$ 468,616</u>	<u>\$ (54,297)</u>	<u>\$ (54,297)</u>	

Overview of Process

UA oversees a primary (parent) funding cost object, the UA Umbrella account, as well as a Reserve cost object. Institute support represented 93% of the funding for UA activities for the period of 2011 to 2015. Within an academic year, student groups are primarily funded by transfers of funds to a settlement account overseen by the UA Finboard, which represents 68% of UA Umbrella expenditure activity for the period. Remaining expenditure activity is comprised of payment for costs directly from the UA Umbrella account. The additional UA cost objects that acquire funds directly from the Umbrella account, but do not follow the Finboard settlement process, are UA Council, officers, and other councils, foundations and committee accounts (government/program accounts).

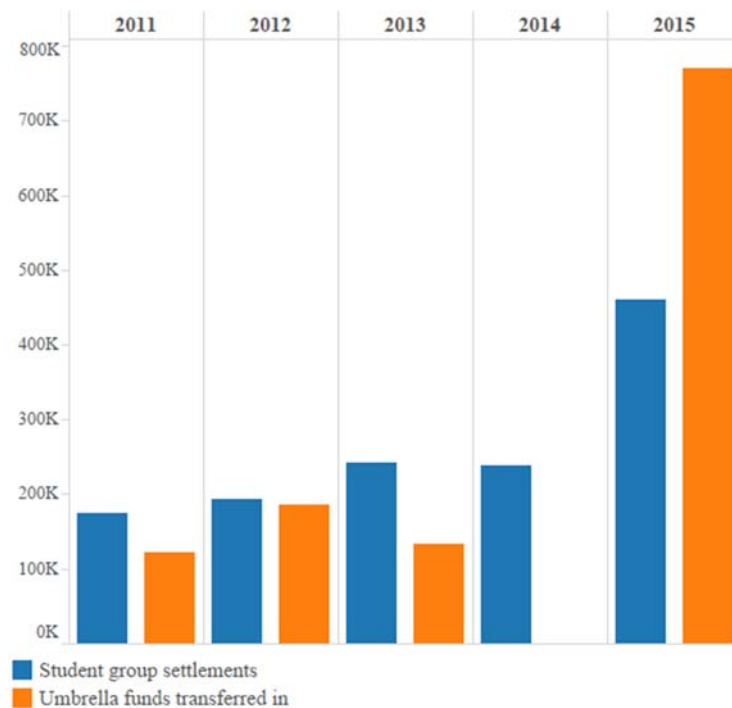
The UA Umbrella accounts entered into a deficit position in FY15. The objective of our engagement was to provide a financial analysis of UA budgeting and expenditure oversight processes to provide information to assist UA and other stakeholders in developing strengthened control processes to prevent future unintended deficits.

The scope of our work and information used in our analysis included:

- Budgetary Analysis: A financial review of budgetary transactions including the allocation and monitoring of funds to/from UA student groups.
- Spending Analysis: A review of aggregate financial transactions within UA student groups, focused on the reasonableness of expenditures and the review for the existence of financial monitoring of actual to budgetary financial transactions.
- Umbrella Surplus Analysis: Identification of, and determination of any disposition of, any UA cumulative surplus within the Umbrella cost objects.

Finboard settlement cost object oversight and reconciliation

The following graph shows actual student group expenditures (settlements) compared to transfers from the UA Umbrella account. Funding transfers to the Finboard cost object are expected to be made at the end of the Institute's fiscal year based upon actual student group expenditures. Our analysis highlighted inconsistencies in the processing of these settlement transactions (some may be previously known) that appear to have caused confusion in identifying the actual funding available to the UA for Finboard supported student groups. This situation occurred due to the lack of a process in place to ensure adequate year end cutoff, which partially caused budgeting problems and made it harder to accurately quantify the UA's financial position.



The total of \$770,641 that was transferred out of the UA umbrella account to the Finboard account in FY15 is comprised of:

Untimely posting of FY14 settlement transfer	\$238,692
Correction of prior year funding deficits	71,831
FY15 settlement transfer	460,118
	<u>\$770,641</u>

Observation # 1: FY14 Finboard settlement was not processed timely. In FY14, Finboard student groups incurred expenditures of \$238,692. The required settlement entry from the UA Umbrella of these actual expenditures was not made until July 2015. Due to the delay in processing, the beginning balance of the UA Umbrella cost object was overstated by \$238,000 at the beginning of FY15. Additionally, no mitigating communication process was in place to ensure that the incoming UA administration were aware of the overstatement or delay in processing.

Observation #2: UA Umbrella settlement payments were not adequate to cover actual Finboard student expenditures. Since FY11, funds transferred into the Finboard account were not sufficient to cover student group actual expenditures. As a result, a “hidden” deficit accumulated within the Finboard account that was not corrected until FY15. The root cause of this was a lack of a reconciliation process to ensure sufficient funds are transferred into the Finboard account to cover student group settlements. Accordingly, the cumulative effect of this underfunding was that the UA Umbrella account was overstated by an additional \$71,831 at the beginning of FY15.

Combined the effect of these two issues gave an impression that the UA had an available cumulative surplus of \$383,556, when the actual surplus was approximately \$73,000. This miscommunication of financial position became a factor in the FY15 UA decision to increase budgetary authorizations to Finboard student groups.

Recommendations:

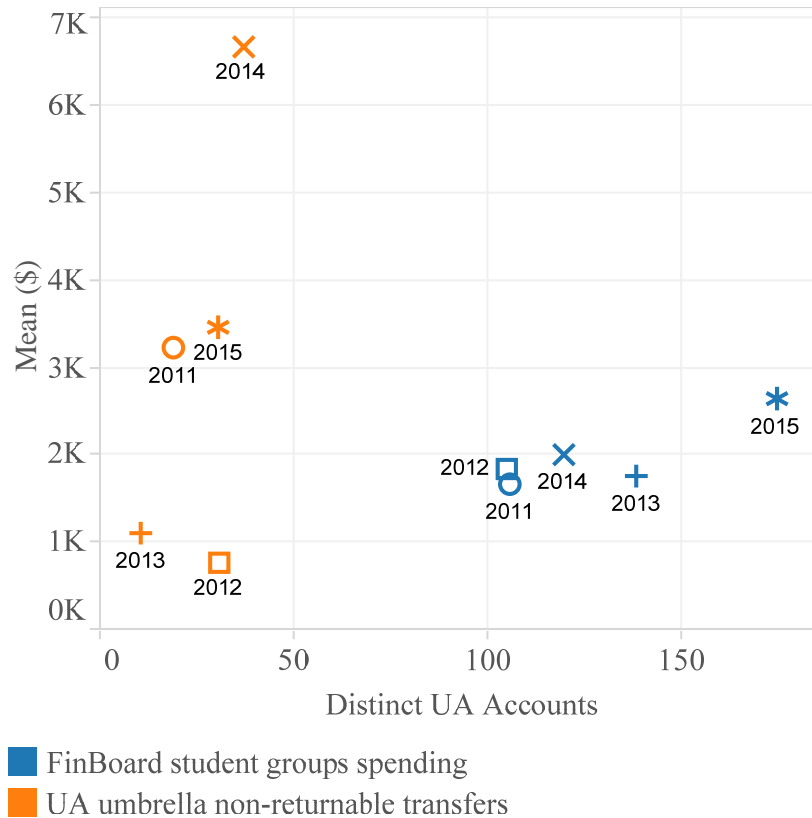
- Define a work flow process to ensure end of year activity is properly accounted for and communicated. Expectations of financial cut offs related to actual incurred expenditures and final cost object balances need to be clearly and accurately communicated. Outstanding or reconciling items require appropriate actions to be taken timely once identified. This should include but not be limited to developing a financial calendar to avoid cut off issues and improve process consistency.
- Develop a formal reporting and certification process to ensure strong communication between UA administrations that includes full analysis and understanding of the UA financial position.
- Reinforce the need and provide direction for timely reconciliations of the Finboard and other accounts as needed to ensure fund transfers cover actual student group settlements (expenditures).

Budgetary, expenditures and reporting process

The UA budgets and expenditures increased and remained at unsustainable levels resulting in a 30% and 65% increase in year over year expenditures for FY14 and FY15, respectively. Information reported to the UA in this period that indicated expenditures at this level could be supported (by spending a cumulative surplus) was in error due to the year end and reconciling issues noted above. In FY14 and FY15 the two UA administrations “spent down” the same cumulative surplus. In FY14 this is evidenced in a large increase in the UA Student Government cost object allocation and in FY15 with an increase in Finboard student group allocations (spending).

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Revenues	7,000	6,150	4,374	24,500	1,384
Total Sources of Funds - UA Umbrella	<u>309,411</u>	<u>376,843</u>	<u>320,634</u>	<u>340,834</u>	<u>399,657</u>
UA Student Government Funding	(47,750)	(8,798)	-	(170,525)	(48,396)
Operating Accts & Other Expenditures	(13,310)	(14,703)	11,831	(76,455)	(58,531)
Expense	(4,467)	(21,200)	(77,919)	(20,802)	(34,968)
Finboard Settlement Ammount	<u>(174,575)</u>	<u>(193,263)</u>	<u>(241,254)</u>	<u>(238,692)</u>	<u>(460,118)</u>
Total Expenses	<u>(240,102)</u>	<u>(237,964)</u>	<u>(307,342)</u>	<u>(506,474)</u>	<u>(602,013)</u>
Total Surplus/(Deficit) - UA Umbrella	<u>\$ 69,309</u>	<u>\$ 138,879</u>	<u>\$ 13,292</u>	<u>\$ (165,640)</u>	<u>\$ (202,356)</u>

The following graph is a representation of these metrics by fiscal year. Due to the process issues described above, the UA appeared to have been operating with an inaccurate interpretation of their true financial situation. There was a 70% growth in student group settlements (spending) in FY15. We observed a 48% rise in distinct student groups along with a 30% increase in average spend per group in Finboard student groups in FY15. This was achieved through a more liberal budgeting structure for the year. While the FY14 Finboard student group funding was in line with previous years, the UA increased spending with larger transfers of resources to other student government initiatives.



Observation #3: The budgetary model is ineffective. Faulty allocation and spending assumptions for Finboard student groups created a large “surplus” within the UA Umbrella account in years 2011 through 2014 and exasperated the deficit issue in FY15.

Observation #4: Long term financial goals are not articulated, including management of the reserve account. Large operating surpluses were not moved to the UA reserve account to distinguish them from operating resources. Furthermore, no guidance on the use or other disposition of prior year surpluses (or deficits) is currently given to an incoming UA administration.

Recommendations:

- Provide a foundation for a solid budgeting process, including all relevant accounts in the budget process and create a systemic schedule of budget to actuals.
- Perform a detailed spending analysis to support budgetary spending assumptions.
- Transfer any fiscal year ending surplus from the Umbrella account into the reserve account, when applicable.
- Clarify the accountability and responsibilities for management of student groups’ spending, including the tolerance for non-compliance and/or overspending.
- Identify and monitor key metrics related to student groups (e.g., total groups, average spend per group, etc.).
- Present actual financial information and relevant metrics for UA decision making processes to assist in ensuring approval of funding is based on an accurate understanding of the UA financial position.

This engagement was not an audit or an independent assessment. We did not provide assurance that the controls over the UA allocation (budgeting) or expenditure processes are adequate. This engagement was a consulting service as defined by the International Professional Practices Framework, which is the guidance framework for the Standards for the Professional Practice of Internal Auditing that guides the Audit Division’s operations.

Matthew J. Davis '16, Undergraduate Association President
October 16, 2015

Michael C. Bowers, CPA, CIA, Associate Audit Director and Vesna N. Zaccheo, Audit Services Manager oversaw the advisory work performed for this engagement by Paul McIntyre, CISA, CGAP, ACDA, Senior Auditor. We thank all individuals from the Student Activities Office and DSL Administration, especially Colin Codner, for the full cooperation we received during the engagement.

cc: Constantino Colombo
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