

**Internal Audit Report
2013 - 017**

**Office of Planning and Budgeting
Activity Based Budgeting**

October 2014

Submitted to: Paul Jenny, Vice Provost
Office of Planning and Budgeting

Copies to: V'ella Warren, Senior Vice President
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October 14, 2014

Paul Jenny, Vice Provost
Office of Planning and Budgeting

Re: Activity Based Budgeting

Enclosed is the final audit report. We appreciate your response and have included it in the report. In all cases, we concur with the actions planned or already implemented.

Based on the implementation date included in the response, we will perform a follow-up review to determine whether management has acted upon our recommendations.

We appreciate the assistance we received from your staff during this review. If we can be of further service, please call Jayne Blackburn, Laura Schrag or me at 543-4028.

Sincerely,

A handwritten signature in black ink that reads 'Richard Cordova'. The signature is written in a cursive style with a large, looping 'R' and a long, sweeping 'C'.

Richard Cordova
Executive Director
Internal Audit

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Executive Summary

The Internal Audit Department (IA) performed a scheduled audit of the Activity Based Budgeting (ABB) of the Office of Planning and Budgeting (OPB). The audit was in accordance with the 2013 annual plan, approved by the Board of Regents. The plan was developed through IA's risk assessment process which considers operational, financial and compliance risks to the University.

The objective of the review was to determine if:

- internal controls are in place and functioning as designed to ensure tuition allocations follow the ABB Tuition Revenue Distribution methodology

Internal controls ensuring the tuition allocations follow the ABB methodology were sufficient; however, we identified a few low risk areas where controls could be improved. Detailed descriptions of these findings, Internal Audit's recommendations, and management's responses are provided in this report.

Background and Scope

Background

Institutional Analysis is part of the Office of Planning and Budgeting which supports the UW community in accomplishing its goals through the planning and allocation of financial and physical resources. Institutional Analysis provides the Provost and other University decision makers with the analysis needed for planning and policy formation and is also responsible for calculating and assigning activity based budgets (ABB) to all University units.

ABB is a method of budgeting in which the activities that incur costs in every functional area are accounted for, analyzed and then linked to the mission and strategic goals of the institution. The full costs of programs and services are then more transparent and available to help with planning, budgeting and decision making.

In 2009 the Provost created a working group to investigate the possibility of implementing an ABB model. In July 2010, the University executed a soft launch of the model, completing a fully implemented model for the fiscal year 2013-14.

Scope

The scope of our audit was to review controls ensuring tuition allocations follow the ABB Tuition Revenue Distribution methodology in Institutional Analysis. Our fieldwork took place between February and June 2014. We reviewed procedures and internal controls for fiscal years 2012-13, and 2013-14 for the ABB distribution methodology.

Objectives and Conclusions

The following table lists the audit objectives and related conclusions:

Objective	Conclusion
Determine if internal controls surrounding ABB tuition allocation are in place and functioning as designed to ensure tuition allocations follow the ABB Tuition Revenue Distribution methodology.	Internal controls ensuring the tuition allocations follow the ABB methodology were sufficient; however, we identified a few low risk areas where controls could be improved.

We conducted our examination in accordance with the International Standards for the Professional Practice of Internal Auditing and, accordingly, included such tests of the accounting records and other procedures as we considered necessary in the circumstances.

Summary of Findings

The following table categorizes the number of findings presented to management. The findings are detailed in the following section of this report. Each finding represents a condition, error or internal control weakness identified during the audit that may have a negative impact on the University's or unit's assets, financial information, ability to comply with laws and regulations or University policies and procedures.

For each finding, we prepared a recommendation to address the situation and requested management's plans for remediation. We request that the timing of management's remediation be commensurate with the impact of the finding.

Internal Audit will follow-up with management to determine whether remediation has been implemented in the timeline established for each finding.

Number of Findings	Priority/ Impact Level	Requested Implementation Timeline (months)
0	Critical	Three
0	High	Six
0	Medium	Twelve
3	Low	Twelve
3	TOTAL	

We conducted our examination in accordance with the International Standards for the Professional Practice of Internal Auditing and, accordingly, included such tests of the accounting records and other procedures as we considered necessary in the circumstances.

Findings, Recommendations and Management Response

Finding (Low Risk)	Recommendation
<p>1. ABB Formal Processes We noted there is no formal process for resolving ABB disputes or changes among OPB and academic units regarding;</p> <ul style="list-style-type: none"> • Procedures • Calculations • Revenue assignments <p>Also, there is no agreed upon and documented process among OPB, the registrar's office and academic units that provides a basis to determine what academic unit will be assigned new curriculum.</p> <p>This has the potential to slow the process of addressing issues, may create inconsistent responses and may prevent the appropriate individuals from providing necessary input timely.</p>	<p>Institutional Analysis should create, document, communicate and carry out formal processes for resolving ABB changes including procedural issues, calculation or revenue assignment disputes or other changes to the ABB model.</p> <p>Also, Institutional Analysis should coordinate with the registrar's office and academic units to create, document and carry out processes for determining which academic unit will be assigned new curriculum.</p>
<p>Management Response: <i>There are, as noted, several key areas where processes need to be created and formalized to ensure that changes and questions can be dealt with appropriately:</i></p> <ol style="list-style-type: none"> <i>1. When academic units have concerns about nuances of the ABB calculation methodology or suggestions for change, they need a formal way to bring those issues to the attention of the ABB Review Committee. To that end, OPB will create a place on the ABB website where units can enter concerns they have. If the issue/question is something that can be addressed by an OPB response, such a response will be provided. If the issue needs to be brought to the ABB Review Committee for consideration, the issue will be added to the agenda for the next ABB Review Committee meeting (if an issue is raised after an agenda for the next meeting has been set, it will be brought to the subsequent meeting).</i> <p>Implementation date: February 1, 2015.</p> <ol style="list-style-type: none"> <i>2. Although there is a process for determining to what department(s) a new program or curriculum will be mapped, it does not meet the needs of ABB (the level of granularity by which such associations are stored in the student information system is inadequate to the task, and the current approval processes for curricula, majors and degrees doesn't involve</i> 	

Finding (Low Risk)	Recommendation
<p>1. ABB Formal Processes</p> <p><i>Management Response Continued:</i></p> <p><i>designation of one or more financial departments as the “owning” department). We also lack a formal process to allow units to change or seek adjudication of current mappings. Finally, even if there were processes in place, it is not possible to record the resultant mappings directly into our source data systems. IT has provided a “work-around” to get information into the Enterprise Data Warehouse (EDW). All involved agree this solution is not adequate for the task (either of tracking program attribution or getting the information into EDW). OPB staff will:</i></p> <ul style="list-style-type: none"><i>a. Work with Registrar staff to adjust the process of establishing new curricula, majors, and degrees to include the specification of one or more financial organizations as responsible.</i><i>b. Work with the ABB Review Committee to develop a process for adjudicating questions about the appropriate attribution of curricula, majors, or degrees to financial departments, including a mechanism on the ABB website that enables people to ask for current attributions to be questioned and resolved.</i><i>c. Work internally or with a vendor/consultant to create a workable product that can capture the connections of curricula, majors, and degrees to financial organizations in a form that can be consumed by the EDW.</i> <p><i>Implementation Date:</i> August 1, 2015.</p>	

Finding (Low Risk)	Recommendation
<p>2. ABB Tuition Revenue Distribution Manual Methodology Changes</p> <p>The ABB Tuition Revenue Distribution Manual states the calibration factor should be applied to the gross operating revenue.</p> <p>However; the calibration factor is currently applied to the net operating revenue. This represents a less conservative approach taken by OPB than originally thought necessary in their distribution calculation.</p> <p>There is no standardized process on how changes to ABB methodology are approved and documented.</p> <p>When the manual is not updated for methodology changes, units and other parties will not have accurate information on how tuition revenue projections and distributions impact their operations.</p>	<p>Institutional Analysis should update the ABB Tuition Revenue Distribution Manual to reflect changes to the methodology.</p> <p>Institutional Analysis should create an ABB methodology change management process.</p>
<p>Management Response: We agree and plan to:</p> <ol style="list-style-type: none"> 1. <i>Improve the material on the ABB website by:</i> <ol style="list-style-type: none"> a. <i>Reviewing and updating the technical ABB manual annually each August to reflect methodological changes, and</i> b. <i>Providing a less technical presentation of the process for the distribution of tuition revenue on the ABB website, which also will be reviewed and updated as needed each August.</i> <p>Implementation date: February 1, 2015</p> <ol style="list-style-type: none"> 2. <i>When changes are proposed, a draft of the change(s) will be prepared. When the changes are relatively technical/minor issues, they will be approved by the Vice Provost of Planning and Budgeting and posted to the website. For more substantial changes, a draft of proposed changes will require review and approval of the ABB Steering Committee.</i> <p><i>(An example of a minor change would be the grouping of tuition categories into tuition groups. An example of a more substantial change would be a change from subtracting waivers associated with TA/RA appointments from net tuition revenue for the relevant</i></p>	

Finding (Low Risk)	Recommendation
<p>2. ABB Tuition Revenue Distribution Manual Methodology Changes Management Response Continued: <i>tuition category to subtracting the value from the tuition revenue distributed to the appointing department.)</i></p> <p>Implementation date: February 1, 2015</p>	

Finding (Low Risk)	Recommendation
<p>3. Activity Performance Evidence For two of 38 queries tested, the process owner was unable to find the Access queries with exact source data from which calculations were based.</p> <p>If source data is not retrievable, Institutional Analysis cannot re-perform calculations when required.</p>	<p>Institutional Analysis should maintain records to archive queries used in the ABB calculation.</p>
<p>Management Response: <i>Because the queries used are sufficiently complex and given the dependence on data from different subject areas, this problem arose because changes had to be made in the calculations (to adjust for miscoded data in the source system) after the initial time of the calculations. Thus, archiving queries is an insufficient solution.</i></p> <p><i>There are two tables that are not frozen on census day:</i></p> <ul style="list-style-type: none"> • <i>The table containing information about degrees awarded, and</i> • <i>The table containing information about financial aid awards.</i> <p><i>We believe the optimal solution is to have a copy of the financial aid award table, frozen as of Spring census day each year (this will be stored so that projections can easily be replicated), and the degrees awarded table and the financial aid award table, frozen as of August 15 each year, stored in EDW.</i></p> <p><i>EDW has indicated insufficient bandwidth to be able to specify a date for the provision of these tables. As an interim solution, OPB will make frozen copies of those tables and store them on OPB's local SQL server.</i></p> <p>Implementation date: April 10, 2015</p>	