

Standard 8: Financial Planning & Management

Budget & Finance: Institutional Self Study Evaluation Scales Narratives

Financial resources must be adequate for the programs and services offered and efficiently managed in keeping with program requirements and institutional priorities. Budgetary processes should allow for long term planning over at least a three year period. Effective systems must be used for budgeting and for financial delegations and accountability providing local flexibility, institutional oversight and effective risk management.

Main components of this standard:

- 8.1 Financial Planning and Budgeting
- 8.2 Financial Management
- 8.3 Auditing and Risk Management

Comment and General Description of Good Practice

Institutions must have sufficient financial resources to support the full range of programs and activities that are offered, at a level of quality at least comparable to the standards of highly regarded institutions with a similar profile elsewhere. However financial responsibility goes beyond the level of funding and requires that whatever resources are available are effectively and efficiently used to maximize benefits to students and the long-term development of the institution.

Annual budget, financial reports, and long term financial projections should be considered in detail in senior committees and approved by the governing body. The governing body should be kept regularly informed of levels of expenditure in relation to budgets and of trends and developments that may affect future financial circumstances.

Appropriate delegations should provide for specified levels of expenditure to be authorized by designated faculty and staff within organizational units across the institution, subject to reporting and accountability requirements. Responsibility for the overall budgeting, accounting and financial management system should be centralized and overseen by a senior member of staff responsible to the Rector or Dean. Regular financial reports should be provided to cost center managers to enable them to compare estimated and actual expenditure and assess any implications for annual financial provision.

Evidence and Performance Indicators

Evidence about the quality of provision of facilities and equipment can be obtained from planning documents, user satisfaction surveys, comparisons of provision with comparable institutions offering similar programs and direct observations by independent evaluators. Condition assessments and maintenance schedules provide information about the quality and maintenance of facilities and major equipment. Regulations and codes of practice relating to the use of facilities and expensive equipment provide evidence of sound management practices and security arrangements. Performance indicators could include such things as ratings on surveys of user satisfaction, statistics on equipment breakdowns, comparisons of provision in relation to other institution.

Standard 8 Financial Planning and Management

Financial resources must be adequate for the programs and services offered and efficiently managed in keeping with program requirements and institutional priorities. Budgetary processes should allow for long term planning over at least a three year period. Effective systems must be used for budgeting and for financial delegations and accountability providing local flexibility, institutional oversight and effective risk management.

The scales below ask you to indicate whether these practices are followed in your institution and to show how well this is done. Wherever possible evaluations should be based on valid evidence and interpretations supported by independent opinions.

Good Practices Relating to This Standard	Is this true? Y/No/NA	How well is this done? (enter stars)
8.1 Financial Planning and Budgeting		
Financial planning processes must be responsive to institutional goals and priorities, maintain viable revenue/expenditure relationships and take full account of long term and short term funding implications.		
8.1.1 Budgeting and resource allocation reflect the mission and goals of the institution and strategic planning to achieve those goals.	Y	4
8.1.2 Annual budgets are developed within a framework of long term revenue and expenditure projections that are progressively adjusted in the light of experience.	Y	3.5
8.1.3 Budget proposals are developed by senior academic and administrative staff in consultation with cost center managers, carefully reviewed, and presented to the governing body for approval.	Y	2.5
8.1.4 Proposals for new programs or major activities, equipment or facilities are accompanied by business plans that include independently verified cost estimates and cost impacts on other services and activities.	Y	3
8.1.5 If new ventures are cross-subsidized from existing funding sources the cost sharing strategy is made explicit and intermediate and long term costs and benefits are assessed.	Y	2
8.1.6 If loans are used debt and liquidity ratios are monitored and benchmarked against commercial practice and equivalent ratios in other higher education institutions.	NA	5
8.1.7 Ratios of expenditure on salaries to total expenditure are planned and monitored, with variations for colleges or departments with different cost structures.	Y	3
8.1.8 Borrowing and other long term financing schemes are used sparingly as a strategic financing strategy to improve capacity rather than to meet unanticipated short term operating costs, with obligations to be met from projected additional revenue, or from known existing revenue sources.	Y	4
8.1.9 Financial planning aims to diversify revenue through a range of activities, which, while consistent with the charter and mission of the institution, reduce its dependence on a single funding source.	Y	4
Overall Assessment		3.4

Comment _____

Priorities for Improvement _____

Independent Opinion

Comment

Financial planning processes are in place and rely on needs assessment from the programs and administrative units. Since the campus is growing so rapidly, there is a delay in meeting needed levels of faculty and staff.

8.2 Financial Management

Financial affairs must be effectively managed with a proper balance between local flexibility for cost center managers and institutional accountability and responsibility.

8.2.1 The oversight and management of the institution's budgeting and accounting functions are coordinated by a business or financial officer responsible to a senior manager.

Y

3

8.2.2 Sufficient delegations of spending authority is given to managers of organizational units within the institution for effective and efficient administration.

Y

3

8.2.3 Financial delegations are clearly specified, and conformity with regulations and reporting requirements confirmed through audit processes.

Y

4

8.2.4 Cost center managers are involved in the budget planning process, and are held accountable for expenditure within approved budgets.

Y

3

8.2.5 The accounting system provides for accurate monitoring of expenditure and commitments against budgets with reports prepared for each cost center and for the institution as a whole at least once every semester.

Y

4

8.2.6 Discrepancies from expenditure estimates are explained and impact on annual budget projections assessed.

Y

3

8.2.7 Accounting systems comply with accepted professional accounting standards and as far as possible attribute total cost to particular activities.

Y

4

8.2.8 The accounting and reporting systems ensure that funds provided for particular purposes are used for those purposes.

Y

3

8.2.9 Where possibilities of conflict of interest exist, either actual or perceived, the persons concerned declare their interest and refrain from participation in decisions.

Y

4

8.2.10 Financial carry-forward provisions are sufficiently flexible to avoid rushed end of year expenditure or disincentives for long term planning.

Y

5

Overall Assessment

3.6

Comment _____

Priorities for Improvement _____

Independent Opinion

Comment

There is a lack of delegation of spending responsibility to departments and other programs. PMU should review current approval and spending practices to expedite acquisition of needed resources and improve efficiency of operations.

8.3 Auditing and Risk assessment

Risk assessment and auditing processes must provide for effective risk analysis and thorough independent verification of financial processes and reports in keeping with applicable accounting standards.

8.3.1 Planning processes include independently verified risk assessment.

Y
Y

3
3

8.3.2 Risk minimization strategies are in place and adequate reserves maintained to meet realistically assessed financial risks.

8.3.3 Internal audit processes operate independently of accounting and business managers, reporting directly to the Rector or Dean or chair of the relevant governing board committee.

Y

2

8.3.4 External audits are conducted annually by an independent government agency or a reputable external audit firm that is independent of the institution, financial, or other senior staff in the institution, and members of the governing body.

Y

5

Overall Assessment

3.25

Comment _____

Priorities for improvement _____

Independent Opinion

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Comment

Auditing of the financial affairs of the university are required by the Ministry of Education. External audits are conducted annually by a third party organization and presented to the Board of Trustees.

Overall Assessment of Financial Planning and Management

8.1 Financial Planning and Budgeting	3.4
8.2 Financial Management	3.6
8.3 Auditing and Risk Management	3.25
Combined Assessment	3.42

Comment _____

Independent Opinion

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Comment

Processes for management and auditing of financial affairs are in place. Means must be found to delegate authority to make expenditures against an approved budget in a timely manner.

Indicators Considered _____

Priorities for improvement _____

8.1 Financial Planning and Budgeting

Financial planning processes must be responsive to institutional goals and priorities, maintain viable revenue/expenditure relationships and take full account of long term and short term funding implications.

8.1.1 Budgeting and resource allocation reflect the mission and goals of the institution and strategic planning to achieve those goals.

STAR: 4

Strengths:

Budget planning and Recourse allocations are tools used to achieve PMU Goals.

- Budgeting & Accounting Department is preparing an annual Budget forecast based on the institutional goals or strategy planed to the coming year.
- Allocation of resources for training of staff and faculty which then infuses PMU instruction with up-to-date skill-sets
- PMU investments in new technology planned and tracked by this department
- PMU makes strong efforts to partner with quality international partners with budgetary planning from this department
- Bringing Banner System online at this time that controls all expenditures of PMU.

Note: See attachment 8.1.1- Copy of Annual Budget Forecast per Cost Center, Copy of Total Annual Budget Forecast, Copy of Faculty Conference Attendance Policy and the related per diem policy.

Areas offering opportunities for improvement:

Budget and Finance has not up to this point developed a system whereby it consistently integrates the PMU Strategic Plan's Goals and Objectives into its own operations

PLAN: Use of Banner System will more closely integrate Budget and Finance with all departments and programs and allow for greater focus on integrating PMU Strategic Goals and Objectives. TIME: Banner is being phased in during Fall 2011 – problems incorporating other PMU departments into Banner while shifting from the old system to Banner make a concrete deadline hard to forecast (Aug 2011 was the initial deadline).

8.1.2 Annual budgets are developed within a framework of long term revenue and expenditure projections that are progressively adjusted in the light of experience.

STAR: 3.5

Strengths:

Financial Planning and Management has improved its original operations by consistently developing three (3) and five (5) year budgets starting in 2007. Banner utilization will enhance this planning process. From the other hand, Budgets are adjusted from time to time to cover all PMU needs and to make sure that funds reserved are used to the same purpose it were reserved for.

Opportunities for improvement:

- Colleges and Departments feedback in preparing the University Annual Budget forecast is the most important element to get paralleled accurate Budget Forecast. Therefore, Budgeting and accounting Department prepared a Budget Questionnaire covers all the required expenditures and assets of each college and department.

Note: See Attachment 8.1.2- Copy of Cash Flow Forecasting Summary from January 1, 2008 to July 31, 2012, Copy of Budget Questionnaires, Copy of guidelines on how the questionnaires will be answered by each department and a copy of a sample letter requesting one department to adjust their budget.

8.1.3 Budget proposals are developed by senior academic and administrative staff in consultation with cost center managers, carefully reviewed, and presented to the governing body for approval.

STAR: 2.5

Strengths:

- To date Financial Planning and Management, based on TIEC policy, has regularly sent budget requests forms to senior academic and administrative staff at the outset of the planning cycle
- Banner has recently been utilized for the delivery of these documents segregated by Academic Program and Administrative Department
- Board of Trustees each year meets to approve budget and review balance sheet
- Banner provides comprehensive End of Year Balance sheet reports

Opportunities for improvement:

- Greater accountability by Academic Programs and Administrative Departments in completing and submitting budget documents
- Dialog between requesting Programs and Departments regarding justifications and attendant negotiations on budget requests

Note: See Attachment 8.1.3- Sample copy of proposed budget from Senior Academic and Administrative Staff and copy of the Final Budget submitted to the Board of Trustees for final approval.

8.1.4 Proposals for new programs or major activities, equipment or facilities are accompanied by business plans that include independently verified cost estimates and cost impacts on other services and activities.

STAR: 3

Strengths:

- As mentioned in item (8.1.2) we are following Colleges and Departments requirements during the budget preparation putting in mind any new programs or major activities so it can be funded by the forecasted budget prepared.

Opportunities for improvement:

- Greater incidence of business plans for all new operations under the auspices of PMU, with particular focus on cost impact on other services and activities

8.1.5 If new ventures are cross-subsidized from existing funding sources the cost sharing strategy is made explicit and intermediate and long term costs and benefits are assessed.

STAR: 2

Strength:

- Banner supports planning and tracking of cross-subsidized funding

- Banner implementation provides procedure to transfer funds from one aspect of the PMU operation to another to support justified budget needs
- Banner requires external approval for End Users to exceed budgeted funds

Opportunities for improvement:

- Greater implementation of Banner for short and long term budgeting

8.1.6 If loans are used, debt and liquidity ratios are monitored and benchmarked against commercial practice and equivalent ratios in other higher education institutions.

STAR: 5

Strengths:

- **PMU maintains strong positive cash flow, thus PMU does not require commercial loans**
- **Any loans that must be taken come from the Ministry of Higher Education which charges no interest**

Opportunities for improvement:

8.1.7 Ratios of expenditure on salaries to total expenditure are planned and monitored, with variations for colleges or departments with different cost structures.

STAR: 3

Strengths:

- PMU has historically generated monthly reports regarding expenditures. As a next step, this report can be queried to provide detailed information per each College, Program and Administrative Department

Opportunities for improvement:

- Colleges, Programs and Departments must adhere to submission of budget guidelines and deadlines.
- Process to accommodate late proposals must be instituted if late proposals are still to be accepted.
- Implementation of Banner will facilitate planning and monitoring of ratio of expenditure on salaries to total expenditures.

Note: See Attachment 8.1.7- Copy of Total Salaries for the month against the total expenditures.

8.1.8 Borrowing and other long term financing schemes are used sparingly as a strategic financing strategy to improve capacity rather than to meet unanticipated short term operating costs, with obligations to be met from projected additional revenue, or from known existing revenue sources.

STAR: 4

Strength:

- PMU is able to rely primarily upon known existing revenue sources, or if need be to borrow from within PMU resources

Opportunities for improvement:

- Fund reserves within PMU investment account will continue to help PMU avoid borrowing as a strategic financing strategy

8.1.9 Financial planning aims to diversify revenue through a range of activities, which, while consistent with the charter and mission of the institution, reduce its dependence on a single funding source.

STAR: 4

Strength:

- Investment account employed to reduce dependence on a single funding source

- Continuing Education programs can provide additional income – Example: Maher Project and Sabic Project

Opportunities for improvement:

- Continue to develop Continuing Education Programs

Note: See attachment 8.1.9- Copy of the policy for Continuing Education Project.

8.2 Financial Management

Financial affairs must be effectively managed with a proper balance between local flexibility for cost center managers and institutional accountability and responsibility.

8.2.1 The oversight and management of the institution’s budgeting and accounting functions are coordinated by a business or financial office responsible to a senior manager.

STAR: 3

Strengths:

- TIEC called for a Director of Budget and Accounting in the University Organization Plans starting in Year Zero, thus PMU has had a manager in charge of this office since PMU began its operations.

Opportunities for improvement:

- A Vice Rector of Finance and Business Affairs has not been appointed as of yet, thus the Director of Budget and Finance answers directly to the Rector.

Note: See Attachment 8.2.1 – Copy of the Financial Affairs Department Organizational Chart.

8.2.2 Sufficient delegations of spending authority is given to managers of organizational units within the institution for effective and efficient administration

STAR: 3

Strengths:

- Directors such as the Director of Budget and Accounting, the Supervisor General of Engineering and Technical Affairs and the Vice Rector of the Academic Affairs have a degree of spending authority within prescribed limits.

Opportunities for improvement:

- Implementation of a policy granting spending authority to managers of organizational units within the institution must occur along with a system to audit budgets and expenditures to ensure effective and efficient administration.

Note: See attachment 8.2.2- Copy Administrative decisions that shows the spending authority of the Vice Rector for Academic Affairs, Supervisor General for Engineering and Technical Affairs , Supervisor General for Administrative Affairs

8.2.3 Financial delegations are clearly specified, and conformity with regulations and reporting requirements confirmed through audit processes

STAR: 4

Strengths:

- Current Financial Delegation Policy and Flowchart is being implemented at the time of writing.
- PMU regularly conducts external audits
- Financial Affairs is following GAAP (General Accepted Accounting Principles) to avoid any low level standard.

Note: See attachment 8.2.3- Copy of the Audited Financial Reports reviewed by the External Auditor.

Opportunities for improvement:

- Necessity to clearly define Financial Delegations and award responsibility
- Establish policy and procedures for conducting regular internal audits

8.2.4 Cost center managers are involved in the budget planning process, and are held accountable for expenditure within approved budgets

STAR: 3

Strengths:

- Accounts Payable Supervisor is replacing the cost center Manager since he is responsible on tracking and controlling departmental budgets in cooperation with the Director of the Financial Affairs.
- Cost Centers are used for all expenditures and tracking of revenue
- Banner supports Cost Center system

Note: Please refer to Attachment 8.2.1 (Financial Affairs Organizational Chart) and sample budget report per cost center generated from the Banner System.

Opportunities for improvement:

- At this time, Cost Center Managers are not in place. This role fulfilled by Director of Budget and Finance and the Supervisor of the Accounts Payable in the University.

8.2.5 The accounting system provides for accurate monitoring of expenditure and commitments against budgets with reports prepared for each cost center and for the institution as a whole at least once every semester.

STAR: 4

Strengths:

- Banner can easily identify and monitors if the expenditures are within or exceed the budget defined at the beginning of the year.
- A notification will appear if the transaction entered exceeds the budget.
- Banner can provide reports of expenditures against budget periodically as needed.
- Budgeting Module in Banner is linked to other related Finance modules same as GL, Purchasing, Warehouse and fixed Assets modules. Moreover, no transaction can be made if non-sufficient fund available.

Opportunities for Improvement:

- Some projects approved during the fiscal year were not included in the department budget submitted at the beginning of the year or during budget preparations.

Note: See Attachment 8.2.5- Copy of the Budgeted Income Statement showing the Actual Revenues and Expenditures against the forecasted and the copy of the Banner Finance, Budget Development Training Workbook.

8.2.6 Discrepancies from expenditure estimates are explained and impact son annual budget projections assessed.

STAR : 3

Strengths:

- Comparative reports between the actual expenses and expenditures against the budget for each year is prepared at the end of the year and presented by the Director for Financial Affairs during the Board of Trustees meeting.

Opportunities for Improvement:

- The comparative report was prepared manually since we just start using the Banner System.
- All reports will be generated automatically from Banner.

Note: See Attachment 8.2.6- Copy of the Comparative Reports between the Actual Revenues and Operating expenses against Forecasted.

8.2.7 Accounting systems comply with accepted professional accounting standards and as far as possible attribute total cost to particular activities

STAR: 4

Strengths:

- Compliance of the current accounting system with the accepted professional accounting standards is checked every year of the External Auditor.
- As mentioned in item (8.2.3) we are following GAAP (General Accepted Accounting Principles).

Opportunities for Improvement:

- Complying GAAP with the Saudi Accounting regulations is a little bit difficult because of Al Zaka issues but it is under control.
- Delayed submission of the audited financial reports by our External Auditor.

Note: Please refer to the attachment 8.2.3 Audited Financial Reports reviewed by the External Auditor.

8.2.8 The accounting and reporting systems ensure that funds provided for particular purposes are used for those purposes.

STAR: 3

Strengths:

- As mentioned before, Budgets are controlled by banner and if any new projects or programs added to it, an override needs to be done in Banner within the available fund.

Opportunities for Improvement:

- Borrowing of funds from one fund to another fund requires prior approval and can be tracked by Banner. This is to cover the fund shortage on our current account resulted by the unexpected project being approved during the year.

8.2.9 Where possibilities of conflict of interest exist, either actual or perceived, the persons concerned declare their interest and refrain from participation in decisions

STAR: 4

Strengths:

- PMU Financial Affairs are following GAAP (General Accepted Accounting Principles) which prevents any conflict of interest.
- Moreover, PMU is following a very strict procedures in its Purchasing department (attached the Purchasing policies) to avoid such conflicts.
- In keeping with the PMU Core Values, PMU Observes Islamic Values in all financial aspects

Opportunities for improvement:

- PMU is in the process of hiring an internal auditor to monitor all internal transactions including any possibilities or real or perceived conflict of interest.

Note: See Attachment 8.2.9- Copy of Administrative Decision related to procedures when following Purchase Orders, Detailed Policy on Purchasing and sample transactions.

PLAN: Projected starting date is February, 2012.

Duties will include a review of all existing policies and formulation of any new required policies to keep PMU in strict compliance with NCAAA requirements and Best Practices

8.2.10 Financial carry-forward provisions are sufficiently flexible to avoid rushed end of year expenditure or disincentives for long term planning

STAR: 5

Strength:

- Standard Operating Procedure at PMU is to fully carry forward funds left-over at the end of the financial year
- Realistic budget forecasting at PMU has been very effective

Opportunity for improvement:

- Budget and Finance will write a policy to address this issue before Spring 2012

8.3. Auditing and Risk Assessment

Risk assessment and auditing processes must provide for effective risk analysis and thorough independent verification of financial processes and reports in keeping with applicable accounting standards.

8.3.1 Planning processes include independently verified risk assessment.

STAR: 3

Strength:

- PMU has a stable income and we may consider that the PMU is stable or liquid.
- The current status of the University was always considered in the planning processes.

Opportunities for improvement:

- Hiring of internal Auditor that will focus on risk assessment since currently the External Auditor only conducts only the audit once a year after the accounting period.

8.3.2 Risk minimization strategies are in place and adequate reserves maintained to meet realistically assessed financial risks

STAR: 3

Strengths:

- External Auditor conducted an annual audit of financial statements at which time they review PMU for compliance with the Generally Accepted Accounting Principles that cover risk management.

Opportunity for improvement:

- Hiring of Internal Auditor with sufficient knowledge in risk management.

8.3.3 Internal audit processes operate independently of accounting and business managers, reporting directly to the Rector or Dean or chair of the relevant governing board committee

STAR: 2

Strengths:

- The University Secretary General was appointed also as University Auditor.

Opportunity for improvement:

- PMU is in the process of hiring Internal Auditor to ensure compliance with the Generally Accepted Accounting Principles as the University Auditor does not cover the audit of the financial statements.

Plan: Projected Starting date is February, 2012

8.3.4 External audits are conducted annually by an independent government agency or a reputable external audit firm that is independent of the institution, financial, or other senior staff in the institution, and members of the governing body

STAR: 5

Strengths:

- External Auditor conducted the audit of the financial statements every year to ensure compliance with the Generally Accepted Accounting Principles.

Note: Please refer to attachment 8.2.3 that serves as evidence for this item, Copy of the Audited Financial Reports.