



UNIVERSITY OF ARKANSAS SYSTEM

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## Internal Audit Report

**University of Arkansas at Little Rock  
Budget Controls  
19-10**

DRRAFT

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### **Risk Assessment Impact Scale**

**RA Level 5** - Greater than \$1 billion

**RA Level 4** - \$500 million to \$1 billion

**RA Level 3** - \$100 million to \$500 million

**RA Level 2** - \$10 million to \$100 million

**RA Level 1** - Less than \$10 million

## ***Background***

An audit of the University of Arkansas at Little Rock (UA Little Rock) Budget Controls was planned based on the Internal Audit Department's annual risk assessment process. The Budget Controls at UA Little Rock have been designated as a **RA Level 3**. UA Little Rock submitted a balanced budget with estimated revenues and expenditures of \$201,557,786 for the fiscal year ending June 30, 2019.

UA Little Rock maintains a Budget Office as part of the Office of Finance and Administration. The primary responsibilities of the Budget Office are to provide support in the development and submission of the institution's annual operating budget, assist campus college/department budget managers, process budget adjustments and revisions, perform position management and prepare/distribute budget reports. At the time of the audit, the Budget Office included a Budget Director and one Research Assistance. In July 2019, an Executive Director of Budgeting and Financial Analysis was hired. The Executive Director reports to the Vice Chancellor for Finance and Administration. In addition, UA Little Rock has budget managers and/or budget directors that manage the budget process for the colleges and departments throughout the university.

## ***Scope***

The scope of this audit was fiscal year 2019 and any other periods deemed necessary for examination of all pertinent records. The purpose of the audit was to 1) ascertain the effectiveness of existing policies and procedures related to the Budget Controls, 2) examine and evaluate the adequacy of UA Little Rock's internal controls surrounding its Budget Controls, 3) test the accuracy of the budget submitted to the Board including the reasonableness of budget projections and 4) determine compliance with Board of Trustees policies, campus policies and procedures and applicable federal and state laws. The audit includes a review of the existing internal control system, audit tests considered necessary and an examination of all pertinent records to meet the above stated purpose.

Our audit was conducted in accordance with generally accepted auditing standards, *International Standards for the Professional Practice of Internal Auditing* issued by The Institute of Internal Auditors and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain reasonable assurance that UA Little Rock's internal control system is adequate and effective in safeguarding assets, UA Little Rock financial records and reports are accurate and reliable, and UA Little Rock is complying with applicable regulations, policies and procedures. We believe our audit provides a reasonable basis for the conclusion stated in this report.

## ***Findings and Recommendations***

### ***Key Controls***

As part of our audit, we reviewed and evaluated management's internal control structure to the extent we considered necessary as required by generally accepted auditing standards. We also reviewed and evaluated management's adherence to Board policies, campus policies and procedures and federal and state laws. For the purpose of this report, we outlined the key areas of internal control as controls over budget planning and procedures, budget adjustments, Banner access to budget transactions, budget tracking, and budget reporting.

Management is responsible for establishing and maintaining a system of internal control. In fulfilling that responsibility, estimates, and judgments by management are required to assess the expected benefits and related costs of the control procedures. The objects of the system are to provide management with reasonable but not absolute, assurance that assets are safeguarded against loss and that transactions are executed in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal control, errors and irregularities may nevertheless occur and not be detected. Also, projection of any evaluations of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate.

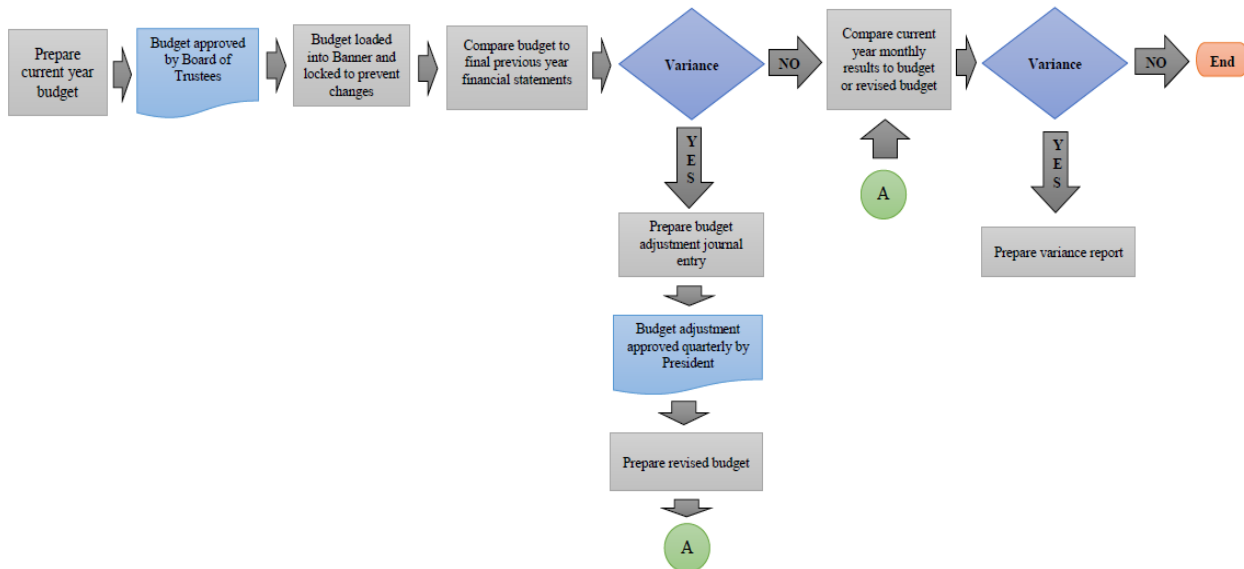
### ***Budget Planning and Procedures***

We interviewed key accounting and finance employees involved in the budget process in order to determine job responsibilities, understand current budget processes and aid in development of the audit program. The Budget Director explained that UA Little Rock does not have policies and procedures to provide guidance for the budget process.

Additionally, the Vice Chancellor for Finance and Administration noted in his interview that UA Little Rock does not have a policy that governs the level of unrestricted net position that should be maintained for GAAP and budgetary purposes, outlines the conditions that warrant its use, or includes a plan for replenishing it.

The budget for a university should be the product created from a planning process carried out strategically by management using variance analysis from prior year financial statements and revenue projections for the coming year. We noted that this process was not in place for UA Little Rock. The flowchart below illustrates the appropriate order and steps in the budget process.

## Budget Process



While reviewing UA Little Rock’s financial statements for variances comparing the FY2019 Board-approved budget to the FY2018 Actual Revenues, Expenses and Changes in Net Position, we noted the FY2019 budget varied from actual FY2018 Revenues, Expenses and Changes in Net Position financial statements for nine of 17 line items by greater than 10% overstating revenue by \$20,466,608 and expenses by \$10,820,788. We also noted the FY2019 budget was prepared using the assumption of a 1.5% projected increase in enrollment when enrollment had been trending downward for the last eight years.

***Recommendations: 1) We recommend that management develop policies and procedures governing the budget process that includes the review of historical trends and sets forth financial constraints and key assumptions that will be used in preparation of the annual budget. 2) We recommend management develop a formal policy that provides guidelines on managing UA Little Rock’s unrestricted net position.***

*Management Responses:*

We requested the documentation used for revenue projections to compare to actual FY2019 results as well as to verify the Board-approved budget was supported. A file containing amounts for only the Education and General (E&G) funds and the Athletics department was provided with no explanation of how the amounts were determined or the basis for the assumptions. Internal Audit requested additional documentation to support the assumptions from the Vice Chancellor for Finance and Administration. However, the documentation was not provided to Internal Audit.

We also reviewed department budget templates submitted by the colleges and departments to the Budget Office and traced 10 budget line items to Banner. Eight of the line items sampled were for E&G funds totaling \$3,351,642 and two were for Auxiliary totaling \$530,921. UA Little Rock's Budget Office was only able to provide sufficient documentation for three of the 10 budget template line items totaling \$571,246.

***Recommendations: 3) We recommend management develop a process for projecting revenue which includes revenue assumptions, how the calculation is developed, and the source of the information. 4) We recommend management establish policies and procedures for department budget preparation and approval. 5) We also recommend supporting documentation for projections and departmental budget submissions be maintained by the Budget Office.***

*Management Responses:*

The Budget Director could not provide a reconciliation of the budget uploaded to Banner to the Board-approved budget. The initial entry of the budget is completed in two processes. One process utilizes the salary planner, a tool used to load all approved positions. The remaining items are uploaded through the journal entry process utilizing rule code, BD01, to represent the original budget. However, we noted that additional adjustments had been made to BD01 that were not part of the original budget.

The budget uploaded to Banner did not agree to the FY2019 budget approved by the Board of Trustees. The Board approved, on May 24, 2018, a balanced budget. On October 30, 2018 and January 30, 2019, the former Chancellor presented budget adjustments for the first and second quarters totaling \$6,973,828 and \$4,508,384, respectively to the UA System President for approval. The Actual and Budgeted Revenues, Expenses, and Changes in Net Position for the Quarter Ended December 31, 2018 submitted to the System Office reflected an annual budget deficit of \$11,482,212. However, during the audit, we noted the budget in Banner indicated a deficit in net position of \$126,162,939 as of March 14, 2019.

UA Little Rock management prepared and received approval for the FY2020 budget during this audit. Management prepared a reconciliation of FY2020 detail to the FY2020 Board-approved budget. The reconciliation and FY2020 budget detail were provided to Internal Audit as well as a copy of the BD01 journal entry loaded into Banner. We verified the reconciliation noting one exception due to a correcting entry for FY2019 in the amount of \$183 for Supplies and Services-Restricted Funds.

***Recommendation: 6) We recommend that the Budget Office prepare an annual reconciliation of the budget uploaded to Banner to the Board-approved budget and maintain documentation of the reconciliation.***

*Management Response:*

## ***Budget Adjustments***

The request for budget adjustments are provided on a quarterly basis from the Chancellor with a letter explaining the adjustments along with a spreadsheet detailing the amounts. The President indicates his approval by his signature on the request. During the next Audit and Fiscal Responsibility Committee meeting, the requests are presented to the Board of Trustees. We selected a sample of 10 approved budget adjustments for the first and second quarter of 2018 for FY2019 totaling \$16,937,939 to review for sufficient supporting documentation. The documentation provided was not adequate to show how the adjustment amounts for the journal entries were determined and the entries to Banner were not approved. In addition, all ten adjustments were made to the original budget instead of preparing a revised budget after being approved by the President. Effective variance reporting cannot be prepared when the approved budget is not consistently maintained.

***Recommendations: 7) We recommend that management not allow adjustments to the original Board-approved budget and instead require preparation of a revised budget after adjustments are approved by the President. 8) In addition, we recommend that management maintain proper supporting documentation and approval for all budget adjustment journal entries.***

### *Management Responses:*

We obtained documentation for the “roll forward” process from Financial Services that is included in the year-end procedures schedule. The “roll forward” is a script process that was designed by UA Little Rock’s Information Technology department. The approval to complete the “roll forward” in Banner is given verbally in the year-end meeting to the Associate Director of Financial Services by management. For FY2019, the “roll forward” added \$76,273,749 to the budget in Banner for designated, restricted and plant fund balances carried forward from the prior year. There were insufficient funds to support these “roll forward” balances.

***Recommendation: 9) We recommend management discontinue the practice of rolling forward balances from prior year balance to add to current year budget amounts.***

### *Management Response:*

## ***Budget Tracking***

Through interviews, we noted award amounts for multiple year grants are not budgeted correctly in Banner. Multiple year grants are recorded in Banner as 100% awarded if the grantee authorizes the full grant amount at the beginning of the grant and the full budget is uploaded in the first year. As part of the year-end “roll forward” process, any remaining grant amount is rolled over to the following year to establish the budget for subsequent years.

***Recommendation: 10) We recommend that management identify a solution for budgeting multiple-year grants that correctly assigns budget amounts to the appropriate fiscal year.***

*Management Response:*

We noted the College of Business and UA Little Rock's Athletic Department use different accounting software from Banner which is UA Little Rock's source of record to manage and report accurately all university funds and scholarship accounts. The College of Business uses Quicken and does not reconcile to the information in Banner on a monthly basis. The Athletic Department uses QuickBooks software to record their financial activity as well as to prepare mandatory athletic reports and uses Banner reports to reconcile QuickBooks monthly to Banner.

***Recommendation: 11) We recommend that management identify the functionality in Workday that meets the accounting and reporting needs of all colleges and departments and eliminate the use of external accounting software.***

*Management Response:*

### ***Budget Reports***

Through interviews, we noted Financial Services and the Budget Office distribute reports to budget managers. One report, the Budget Status report, is not used by finance managers because it has very limited information. Finance managers routinely use Banner forms to check cash balances and to review expenditure budget balances.

The other report distributed is a printed operating budget titled "Operating Budget". This report is provided to campus departments and only includes E&G and Auxiliary funds. We compared the 2019 Operating Budget and the Board-approved 2019 UA Little Rock Budgeted Revenues, Expenses and Changes in Net Position and noted 10 discrepancies between line items for the E&G and Auxiliary totaling \$3,702,107. Differences in reported budget amounts may mislead management as to UA Little Rock's current available budget amounts.

***Recommendation: 12) We recommend that management only present budget reports to campus departments that agree to the Board-approved budget.***

*Management Response:*

### ***Banner Access to Budget Transactions***

We reviewed employees that have access to budget transactions. We noted 43 users with access to make budget adjustments using either a rule code or rule group. Ten of the 43 users are employees who are no longer employed, one is a duplicate user, one is a graduate assistant, two are Budget Office employees, and nine users (20%) are in the Office of Research and Sponsored



Programs (ORSP). The remaining users are business officers in various colleges or departments in the university.

It appears that ORSP has a large percentage of employees with access to make budget adjustments compared to the remaining population of the university. We also noted the Budget Office is not included in the approval process to grant access to budget transactions. Requests for access are approved by a financial manager or the user's direct supervisor.

***Recommendations: 13) We recommend that management review the positions that have access to budget transactions and determine if job duties warrant access and immediately eliminate access for the terminated employees. 14) We also recommend access to make any budget transactions be approved by the Budget Office.***

*Management Responses:*

### ***Conclusion***

University of Arkansas at Little Rock's established system of internal control over budgeting and related transactions should be strengthened in the above documented areas in order to enhance the effectiveness and adequacy of UA Little Rock's internal controls surrounding the budget process and to promote compliance with the University of Arkansas Board of Trustees policies, federal and state regulations, and campus policies and procedures.

### **University of Arkansas System Internal Audit Department**

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