

**REPORT TO THE
UTAH LEGISLATURE**

Number 2007-11

**A Performance Audit
of
Higher Education Personnel
Budgeting Practices**

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Chapter I

Introduction

The Legislature has vested the oversight responsibilities for the state's system of higher education in the State 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. Higher education's budgets are broken down into two primary components: personnel services and non-personnel expenses. For purposes of this report, personnel needs are defined as the total compensation for all individuals; non-personnel needs are all additional items necessary to provide a system of higher education.

Public institutions of higher education are generally overstating their personnel budgets.

Our review found that public institutions of higher education are generally overstating their personnel budgets. These monies are being used to cover needs that are either not covered or not adequately covered in the overall operating budgets; any unspent funds are carried forward. Our concern is that an incentive is created for institutions to maximize their personnel budgets in anticipation of increased personnel appropriations yet there is no system in place to identify long-term vacant positions.

Budgeting is not an exact science, and the budgeting process for institutions of higher education is somewhat different than that of state agencies. The reason the budgeting process for institutions differs is in part due to the review and consolidation process performed by the Board of Regents. Other reasons for the differences include the combination of higher education's level of autonomy in relation to state agencies, and unlike many state agencies, institutions of higher education are neither covered by state administrative services nor solely dependent on state funds.

Board of Regents Have Oversight Responsibilities for Higher Education

The Legislature has vested the oversight responsibilities of the higher education system in the State of Utah to the State Board of Regents. *Utah Code* 53B-1-103(2)(a) states:

The purpose in creating a system of higher education under the purview of the State Board of Regents was to help ensure a quality, efficient, and economical system of higher education.

The board is vested with the control, management, and supervision of the institutions of higher education designated in Section 53B-1-102 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 State 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. 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 State Board of Regents has the power to, and has, delegated and vested certain powers to institutional boards of trustees and institutional presidents. *Administrative Rule R131-3* states:

Administrative responsibilities for institutional operations shall be delegated to the respective Presidents and institutional Boards of Trustees. The State 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
- Governmental Relations
- Administrative Unit and Program Approval

With regards to budget and finance, the State 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 line item, the institution has discretion in how to budget these funds.

The State Board of Regents is the final authority for approval of institutional budget proposals for recommendation to the Governor and the Legislature.

Budgeting for Institutions of Higher Education Differs from Budgeting for State Agencies

Each institution of higher education submits its operating budget request to the Board of Regents. The Board of Regents then reviews each institutions' 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. This process is defined in *Utah Code* 53B-7-101(1), it reads, in part:

Institutional budget requests are reviewed and consolidated by the Board of Regents.

The board shall recommend a combined appropriation for the operating budgets of higher education institutions for inclusion in the state appropriations act. . . . The recommended appropriations shall be determined by the board only after it has reviewed the proposed institutional operating budgets, and has consulted with the various institutions and board staff in order to make appropriate adjustments.

The budgeting process for institutions of higher education differs from the process for state agencies. One significant difference is the review and consolidation of all operating budgets by the Board of Regents.

Budgets for higher education and state agencies are often prepared about one year before they are actually implemented, so accurate planning becomes important. Figure 1.2 lists the time frame and associated actions that go into the budgeting process for institutions of higher education.

Figure 1.2 Higher Education Budget Preparation Timeline.
Accurate planning is important because of the one-year time lag between budget preparation and implementation.

July/Aug - Institutions identify budget issues and submit budget priorities, needs, and input to the Commissioner's Office.

Aug/Sept - Commissioner's Office analyzes submissions, compiles themes, and organizes institutional presentations to the Regents.

Sept - Institutions present budget needs to Regents.

Sept/Oct - Commissioner's staff, Council of Presidents, and institutional budget officers prepare budget recommendation for Regents, including formula and first-tier tuition recommendations.

Oct/Nov - Regents approve budget request and tuition (first-tier and potential second-tier) and submit to the Governor, via the Governor's Office of Planning and Budget, and to the Legislature, via the Legislative Fiscal Analyst.

Nov/Dec - Governor develops and releases budget recommendations.

Feb/March - Legislature passes budget appropriation bills.

March - Governor signs appropriations bills.

March - Regents finalize tuition increase—first and second-tier.

March/April - Commissioner's Office issues budget implementation guidelines.

April to June - Institutions establish new year budgets, reporting use of new funds to the Regents.

Source: The Utah State Board of Regents

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. However, higher education does not use previous year actual expenditures in the building of current year budgets.

By the end of each fiscal year, public institutions of higher education are covering their personnel and non-personnel costs, but the manner in which they budget for these costs should be improved. The budgeted amounts for personnel and non-personnel do not accurately reflect actual expenses; personnel budgets are being overstated while non-personnel budgets are being understated. This budgeting system is balanced by fund transfers from personnel to non-personnel.

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, institutions of higher education are neither covered by state administrative services nor solely dependent on state funds.

Audit Scope and Objectives

The Office of the Legislative Auditor General was asked to review how institutions of higher education account for monies that are saved when personnel turnover occurs and identify how positions are filled. Turnover is a natural process that occurs in every organization: Our review found that savings attributable to turnover are only a small part of the issue surrounding the budgeting process for higher education. Upon consent of the Audit Subcommittee, the scope of the audit expanded to address a more complete review of the budgeting process for higher education.

Each institution budgets and expends for personnel and non-personnel in a different manner and has a variety of differing circumstances and obstacles. For example, some institutions have a centralized budgeting process, while others have a decentralized budgeting process with multiple entities controlling multiple budgets. To control for these differences, our office reviewed institutions from a macro perspective with regards to budgeted amounts and actual expenditures for personnel and non-personnel services.

The scope of the audit expanded to address a more complete review of the budgeting process for higher education.

Our review focused only on the education and general (E&G) line item appropriations for nine of the ten schools, we did not include UCAT in our analysis.

To help 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 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 focused on 9 of the 10 institutions of higher education in the State of Utah and did not include the Utah College of Applied Technology (UCAT).

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Chapter II

Higher Education's Budgets Are Not Representative of Actual Expenditures

Higher education's institutional budgets are not representative of actual expenditures. For example, fiscal year 2006 personnel budgets overstated needs by about five percent, while non-personnel budgets were understated by about 19 percent. In terms of dollars, these percentages for fiscal year 2006 equate to a \$38.1 million overstatement for personnel and a \$29.8 million understatement for non-personnel. Because institutional personnel budgets are significantly larger than non-personnel budgets, budget overstatements for personnel have been sufficient to cover budget understatements for non-personnel.

Public institutions of higher education routinely submit budgets with high personnel costs and low non-personnel costs.

Public institutions of higher education routinely submit budgets with high personnel costs and low non-personnel costs. While these budgets balance, in total, their declared expense needs reflect neither past spending nor anticipated future spending. The reason for this budgeting disconnect is, most likely, the combination of higher education's level of independence from state controls and higher education's reaction to historically reduced budgets that did not account for the institutions' growing non-personnel expenses. One concern that we have with this process is that institutions have an incentive to maximize their personnel budgets in anticipation of increased personnel appropriations.

In addition to higher education's budgets not accurately reflecting actual expenditures, carryforward funds are not being adequately disclosed. While actual carryforward balances for institutions are reasonable, we are concerned with the manner in which they are being reported. Some institutions of higher education are artificially lowering their reported carryforward balances by inappropriately subtracting individual colleges and/or departmental carryforward balances as "other deductions."

Personnel Budgets Are Often Overstated

Institutions of higher education have an incentive to keep personnel budgets as high as possible because of the perception that they are more likely to receive personnel increases in legislative appropriations. This occurs because when the Legislature appropriates money for personnel increases, this money is distributed to higher education based on their budgeted amounts and not actual expenditures. Higher funding levels in personnel budgets can then be used to address non-personnel needs or carried forward for future needs. Adding to funding concerns is higher education's request and subsequent ongoing appropriation from the Legislature of about \$2.5 million for retention funding during years when higher education was generally budgeting more for personnel than actually spent.

High Personnel Budgets Often Result in Unspent Personnel Funds

Institutions of higher education's high personnel budgets often result in unspent personnel funds that are used to address other non-personnel needs. Over the last four fiscal years (fiscal year 2003 through fiscal year 2006), these additional funds have ranged between 3.1 percent and 5.7 percent of total personnel expenditures for institutions of higher education through their education and general (E&G) line items. As shown in Figure 2.1, the total of the additional funds ranged, annually, between \$18.8 million and \$38.1 million.

Institutions of higher education often overstate personnel budgets resulting in unspent personnel funds ranging annually between \$18.8 million and \$38.1 million for all of higher education.

Figure 2.1 Institutions of Higher Education Have Unspent Funds in Their Personnel Budgets. In total, institutions of higher education overstate personnel budgets between \$18.8 million and \$38.1 million a year.

Fiscal Year	Unspent Personnel Funds
2003	\$ 29,906,063
2004	18,802,009
2005	28,054,311
2006	38,128,620

Note: These numbers represent the total unspent funds of budgeted over actual expenditures for personnel for nine public institutions of higher education in the state of Utah. These institutions are: The University of Utah, Utah State University, Southern Utah University, Weber State University, Utah Valley State College, Dixie State College, Salt Lake Community College, Snow College, and the College of Eastern Utah.

The U of U and USU account for most of the system's unspent personnel budget funds.

The University of Utah and Utah State University account for 58 percent of higher education's overall operating budgets, and likewise, account for most of the unspent funds in personnel budgets. For fiscal year 2006, the University of Utah accounted for \$17.4 million (46 percent), and Utah State University accounted for \$7.4 million (19 percent) of the \$38.1 million surplus in personnel services for that year. The source of these unspent funds may be a result of natural turnover or long-term vacant positions that institutions have not filled. Because institutions do not track or identify long-term unfilled positions, we were unable to determine the cause of these unspent funds. (See the Appendix for a more complete breakdown of the variances being generated by each of the nine institutions of higher education.)

The overstated amounts in personnel services are primarily because of unfilled positions.

The unspent personnel service funds appear to primarily arise from unfilled positions. Institutions of higher education have either intentionally not filled these positions or have been unable to fill them. As previously mentioned, we were unable to determine the length of time positions were unfilled because higher education does not track or report this information. Figure 2.2 shows the total and average number of vacant positions for seven of the nine public institutions of higher education for the last three fiscal years. Snow College and the College of Eastern Utah are not included in the following information because of inconsistencies and inaccuracies in their reporting of FTEs over the last three fiscal years.

Figure 2.2 Institutions of Higher Education Generally Budget for More FTEs Than They Actually Employ.

Institutions of higher education typically budget for significantly more FTEs than they actually employ, leaving a number of FTE positions vacant.

Fiscal Year	Budgeted Vacant FTEs
2004	597.48
2005	842.36
2006	830.84

Note: These numbers represent total vacant budgeted FTEs for seven of the nine public institutions of higher education in the state of Utah. These institutions are: The University of Utah, Utah State University, Southern Utah University, Weber State University, Utah Valley State College, Dixie State College, and Salt Lake Community College.

Institutions of higher education have reported to us that the number of FTEs can fluctuate daily. Positions are sometimes left vacant intentionally, or the college or university may be trying to fill a vacancy but experiencing difficulty in doing so. Listed in Figure 2.3 are the budgeted and actual FTEs for each institution of higher education for fiscal year 2006.

Figure 2.3 Budgeted FTEs Compared to Actual FTEs for Fiscal Year 2006. Institutions of higher education generally budget for more FTEs than they actually employ.

School	Budgeted FTEs	Actual FTEs	Difference
U of U	3,684.53	3,231.42	453.11
USU	1,943.66	1,740.36	203.30
SUU	574.65	582.54	(7.89)
WSU	1,456.36	1,434.36	22.00
UVSC	1,486.38	1,415.94	70.44
DIXIE	402.57	394.18	8.39
SLCC	1,393.06	1,311.57	81.49
Total	<u>10,941.21</u>	<u>10,110.37</u>	<u>830.84</u>

Legislative increases for personnel are based on the institution's personnel budgets and not actual expenditures.

When a budgeted position is vacant or its budgeted amount exceeds actual needs, a positive variance or overstatement in personnel services occurs. One concern with this process is that institutions of higher education have an incentive to keep monies in personnel budgets indefinitely because, from their perspective, the Legislature will provide increases for personnel services at a higher rate than for non-personnel services.

Currently, increases for personnel services are based on the institution's personnel budgets and not on actual expenditures. If the institutions were to reallocate the money out of personnel, they would not receive increases for personnel based on the money that was reallocated. The institutions contend that this money may or will be needed for future personnel needs.

Retention Funding Sought by Higher Education While Experiencing Savings in Personnel Budgets

During the 2005 General Session, the Legislature appropriated approximately \$2.5 million in ongoing funds to support the State Board of Regents' request for faculty and staff retention. While the need for retention is recognized, the request for retention funding occurred in years when most institutions of higher education were experiencing unspent funds in their personnel budgets. The Legislature provided funding to help ensure that the institutions were able to retain faculty and staff that may be lured away for increased salaries.

Higher education requested and received retention funding in years when institutions were experiencing unspent funds in personnel budgets.

Figure 2.4 shows the retention funding that each institution of higher education received, along with the corresponding variances in each individual institution's personnel budget for the same year that the funding was initially appropriated.

Figure 2.4 Institutions of Higher Education Received Retention Funding When Experiencing Unspent Funds in Personnel Budgets. Institutions of higher education sought retention funding from the Legislature when savings in personnel budgets could have been used.

School	Retention Funds Received	FY2005 Personnel Ending Balances
U of U	\$ 837,900	\$ 12,527,754
USU	421,500	2,145,869
SUU	102,200	(46,447)
WSU	247,100	2,342,294
UVSC	235,400	1,919,173
DIXIE	55,200	(2,104)
SLCC	229,300	5,056,939
SNOW	52,600	3,611,823
CEU	35,600	499,010
Total	<u>\$ 2,216,800</u>	<u>\$ 28,054,311</u>

Note: The Utah College of Applied Technology received \$334,000 and the State Board of Regents Office received \$10,100 in retention funding.

While institutions did have just over \$28 million in unspent funds for personnel in fiscal year 2005, they also understated their non-personnel budgets by about \$25.2 million for that same year.

Non-Personnel Budgets Generally Do Not Reflect Needs

Institutions of higher education are generally experiencing negative variances or understatements in their non-personnel budgets. This occurs because higher education often understates non-personnel budgets. Over the last four fiscal years (fiscal year 2003 through fiscal year 2006), these understatements have been increasing in terms of actual expenditures compared to budgeted amounts. As shown in Figure 2.5, the total of these understatements or negative variances has increased over the last four fiscal years from \$18.8 million to \$29.8 million.

Institutions of higher education often understate non-personnel budgets. Understatements have been increasing from \$18.8 million to \$29.8 million for all of higher education.

Figure 2.5 Institutions of Higher Education Are Generally Running Negative Variances in Their Non-Personnel Budgets. In total, institutions of higher education annually understate non-personnel budgets between \$17.7 million and \$29.8 million a year.

Fiscal Year	Non-Personnel Ending Balances
2003	(\$18,807,900)
2004	(17,690,267)
2005	(25,232,057)
2006	(29,769,536)

Note: These numbers represent the total and average negative variances of actual over budgeted amounts for non-personnel services for all nine public institutions of higher education in the state of Utah. These institutions are: The University of Utah, Utah State University, Southern Utah University, Weber State University, Utah Valley State College, Dixie State College, Salt Lake Community College, Snow College, and the College of Eastern Utah.

As the University of Utah and Utah State University account for most of the positive variances or overstatements in personnel, they also account for most of the negative variances or understatements in non-personnel. For fiscal year 2006, the University of Utah accounted for \$18.6 million, and Utah State University accounted for \$12.4 million of the \$29.8 million understatement in non-personnel services for that year. The budgeting understatement for the University of Utah and Utah State University for non-personnel is greater than the total understatement for all of higher education because Southern Utah, Weber State, UVSC, Dixie, and Salt Lake Community all had positive variances or overstatements in their non-personnel budgets for fiscal year 2006, while the College of Eastern Utah and Snow College had negative variances or understatements in non-personnel for the same year. (See the Appendix for a more complete breakdown of the variances being generated by each of the nine institutions of higher education for non-personnel services.)

Figure 2.6 shows how the total variances or understatements for institutions of higher education are being generated across the four categories of non-personnel services that institutions of higher education budget for. The University of Utah and Utah State University significantly affect these numbers because their budgets and actual expenditures are so much greater than the non-personnel budgets and expenditures of the other seven institutions. For fiscal

The U of U and USU account for most of the understatements in non-personnel budgets.

year 2006, the University of Utah and Utah State University combined to account for about 49 percent of all nine institutions' non-personnel budgets and about 59 percent of all non-personnel expenditures. Over the last four fiscal years, with the exception of Dixie State College, public institutions of higher education have all had negative variances or budget understatements in their non-personnel budgets.

Figure 2.6 Total Negative Variances or Budget Understatements for Institutions of Higher Education's Non-Personnel Budgets. Fuel and power and current expenses account for the largest negative variances in higher education's non-personnel budgets.

Fuel and power and current expenses account for the largest non-personnel expenses.

Fiscal Year	Fuel & Power	Current Expense	Travel	Equipment
2003	(\$ 5,913,737)	(\$ 8,301,390)	(\$ 2,476,721)	(\$ 2,116,052)
2004	(12,529,366)	(2,036,816)	(1,841,575)	(1,282,510)
2005	(15,327,564)	(6,799,772)	(2,179,762)	(924,959)
2006	(15,172,469)	(11,924,972)	(2,576,355)	(95,741)

Note: These negative variances are totals for all nine public institutions of higher education.

While positive variances or budget overstatements for personnel have ranged between 3.1 percent and 5.7 percent over the last four fiscal years (2003 through 2006), negative variances or budget understatements for non-personnel have been increasing from 13 percent to 19 percent of non-personnel expenditures. In looking at the budgets, for fiscal year 2006, higher education's non-personnel component was about one-quarter the size of the personnel component, so overstatements in personnel were adequate to cover understatements in non-personnel.

Our concern, which will be addressed more fully in Chapter III of this report, is that budgets are not more closely aligned with actual expenditures and that actions are not being taken to align them. For example, total non-personnel expenditures for all nine institutions equaled \$133.7 million for fiscal year 2004, but total budgeted non-personnel amounts for fiscal year 2006 only equaled \$126.6 million. What institutions of higher education budgeted for in 2006 was about \$7 million short of what they actually spent in 2004.

Carryforward Funds Are Not Adequately Disclosed

Carryforward balances for each institution of higher education's E&G budget are relatively small, but they are not being reported accurately.

We reviewed the carryforward balances of each institution of higher education's E&G budget and found that carryforward balances are relatively small when compared to operating budget revenues. Our concern is not with the amounts that are being carried forward, but the manner in which carryforward funds are being reported. Institutions are artificially lowering their reported carryforward balances by reporting individual departmental carryforward balances as "other deductions."

Unspent funds or overstatements in personnel services cover multiple non-personnel needs, and any remaining money is carried forward to following years to cover future personnel or non-personnel needs. This is done because once money is appropriated to higher education through their education and general (E&G) line item, the money has to be used for E&G purposes and cannot be transferred out for other purposes. So ultimately, all negative variances or budget understatements in non-personnel are covered with positive variances or overstatements in personnel budgets.

Monies budgeted for personnel are used for current employees' total compensation (salaries and benefits). A portion of these monies also cover early retirement stipends. All nine institutions have early retirement programs, and the stipends paid to the early retirees come out of the institutions' personnel operating budgets. Most institutions of higher education in the State of Utah provide up to 20 percent of an early retiree's salary for up to five years. Once compensation obligations to current employees and early retirees are met, monies left over in personnel budgets are savings in personnel services. Personnel savings are being used for non-personnel needs including: travel, equipment, current expenses, operations and maintenance. Any unspent funds are then carried forward. Figure 2.7 shows the carryforward information reported by each institution of higher education for fiscal year 2006.

Figure 2.7 Carryforward Balances As Reported by Institutions of Higher Education Are Relatively Small. The carryforward balance for institutions of higher education was relatively small in relation to operating budgets for fiscal year 2006.

School	Fund Balance	Other Deductions	Carry Forward	Carry Forward Percent of Total Budget
U of U	\$21,023,095	\$19,000,000	\$2,023,095	.62%
USU	8,468,482	8,468,482	-0-	.00
SUU	3,031,735	-0-	3,031,735	6.66
WSU	9,015,977	9,885,154	(869,176)	(.82)
UVSC	10,684,006	10,684,006	-0-	.00
DIXIE	5,635,727	5,550,727	85,000	.27
SLCC	7,200,523	7,200,523	-0-	.00
SNOW	1,301,466	923,220	378,247	1.62
CEU	(353,574)	-0-	(353,574)	(2.77)

Note: Fund balance represents the amount of money left over in an operating budget; other deductions are subtracted from this number to arrive at the carryforward amounts.

Carryforward balances reported by institutions are relatively small; our concern is the manner in which these balances are being reported. Money being subtracted from the fund balances under other deductions to arrive at the carryforward amount is being inappropriately applied and is artificially lowering the carryforward amounts. Some colleges and universities, like the University of Utah and Utah State University, are reporting the carryforward balances of their individual colleges and departments as other deductions and artificially lowering their overall reported carryforward balances.

Including the carryforward balances of individual colleges and/or departments, the University of Utah’s carryforward balance for fiscal year 2006 increases to \$21 million, or 6.4 percent of their total operating budget, and Utah State’s carryforward balance increases to \$7 million, or 4.3 percent of their total operating budget. From the university’s perspective, this is done because monies that they allocate

Not all carryforward amounts are fully recognized in the current reporting process.

The manner in which institutions are reporting carryforward balances is not how the Board of Regents intended.

to individual colleges and/or departments are not viewed as monies available to the central university, so they subtract these amounts from the university's carryforward balance.

Board of Regents' staff informed us that for purposes of reporting, "other deductions" was added as a reporting item to reflect purchase commitments for the next fiscal year. The current practice of this reporting function, for some institutions, is to zero out the surpluses in the fund balances to make the final year-end balance equal or closer to zero. Institutions do this by reporting the carryforward balances of their individual colleges and/or departments as "other deductions." To correct for this misunderstanding, we recommend that the Board of Regents work with the institutions of higher education to ensure that carryforward balances are accurately reported.

Recommendations

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.

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Chapter III

Higher Education's Budgeting Information Can Be Improved

Improving the accuracy of higher education's budgeting process can result in better information and oversight. While budgeting is not an exact science, actual expenses from previous years should be evaluated to more accurately project future expenses. Budgeted amounts for personnel and non-personnel for higher education have drifted over the years and no longer reflect spending expectations. Budgeting practices should be brought more in line with actual expenditures.

The State's Board of Regents should work with public institutions of higher education to improve the accuracy of their budgeting processes. Because personnel is such a significant portion of higher education's operating budgets, the Board of Regents should also work with institutions to ensure that adequate reporting occurs on budgeted vacant full-time equivalent (FTE) positions. This information should then be reported to the Legislature via the Legislative Fiscal Analysts Office. Improving the budgeting and reporting processes will enhance communication and accountability/oversight between the Legislature and the state's system of higher education.

Budget Accuracy Needs Improvement

Annual reported budgets for higher education institutions often do not accurately reflect either actual past expenditures or anticipated future spending. While at the end of each fiscal year, institutions of higher education are covering all of their costs, proposed budgets do not reflect actual expenditures. The Legislative Fiscal Analyst reports in the *Appropriation Process Budget Analysis* publication that:

Budgeting is the allocation of limited resources among competing priorities. The budgeting process can be an important tool in the legislative oversight, evaluation and

Improved communications through accurate and timely data will enhance the Board of Regents' and the Legislature's ability to provide sufficient oversight for institutions of higher education.

management control of State programs. It is a process that depends on good communications.

Improved communications through accurate and timely data will enhance the Board of Regents' and the Legislature's ability to provide sufficient oversight for institutions of higher education.

For fiscal year 2006, public institutions of higher education had a wide variance in their budgeted amounts compared to actual expenditures for personnel and non-personnel. Some schools were accurate, but others were not.

- For personnel, the variance of budgeted amounts compared to actual expenditures ranged from an overstatement of 1.19 percent to an overstatement of 7.24 percent.
- For non-personnel, the variance of budgeted amounts compared to actual expenditures ranged from an overstatement of 7.87 percent to an understatement of 35.82 percent.

Previous year actuals are not being fully examined to help determine current budget allocations. As mentioned, education and general (E&G) total expenditures for non-personnel for all nine institutions equaled \$133.7 million for fiscal year 2004, yet total budgeted amounts for non-personnel for fiscal year 2006 only equaled \$126.6 million. The fiscal year 2006 overall non-personnel budget for all institutions was about \$7 million less than what was actually spent in fiscal year 2004. According to the Legislative Fiscal Analyst and the Governor's Office of Planning and Budget, prior years' actuals are used as building blocks in budgeting for state agencies. While we recognize that higher education is different than state agencies, higher education can still benefit from this practice in order to improve the accuracy of their budgeting processes.

As previously shown, there is a disconnect between higher education's budgets and actual expenditures. Our concern with the current system is that the disconnect between budgeted amounts and actual expenditures reduces oversight of how monies appropriated by the Legislature are spent. One manner in which entities communicate priorities and needs to the Legislature is through proposed budgets, so proposed budgets should be more in line with actual expenditures.

Previous year actuals are not being fully examined to help determine current budget allocations.

Oversight is diminished when budgeted amounts and actual expenditures are not moving towards alignment.

One concern that institutions have with requiring a more accurate budgeting process is that the net effect could be to eliminate compensation increases for current unfilled positions. They feel that over time this process could reduce their ability to compete for faculty and staff because these salaries would be increasing in the local and national markets. Currently, when the Legislature gives personnel increases, these monies are distributed to higher education on the basis of what they budget for personnel and not what they actually spend.

In order to improve the budgeting process and help ensure that budgeted amounts more accurately reflect actual expenditures, we recommend that the Board of Regents work with public institutions of higher education to ensure that submitted budgets better reflect past actual expenditures. To enhance the monitoring of the budget process, we also 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 does not fall within an acceptable range, the Board of Regents should require the institution to report why.

Budget Staffing Includes Vacant Positions

Unlike state agencies, institutions of higher education are not required to report on budgeted vacant positions. Each public institution of higher education fills position vacancies at their own discretion. Under current budgeting and reporting processes, institutions do not track the length of time positions have been left vacant, and some institutions have higher vacancy rates than others. By vacancy, we refer to budgeted FTE (full-time equivalent) positions that were not filled by the end of the fiscal year. Figure 3.1 shows the actual number of budgeted FTEs that were not filled by the end of the corresponding fiscal years for seven of the institutions. This review focused only on FTEs that were budgeted for under the institutions' education and general (E&G) line items. Snow College and the College of Eastern Utah are not included in the following information because of inconsistencies and inaccuracies in their reporting of FTEs over the last three fiscal years.

Unlike state agencies, public institutions of higher education are not required to report on budgeted vacant positions.

Figure 3.1 Institutions of Higher Education Vary in the Amount of Vacant Positions Reported. Some public institutions of higher education have a significant number of budgeted vacant FTE positions at the end of each fiscal year.

School	Vacant FTE Positions		
	FY2004	FY2005	FY2006
U of U	462.05	460.13	453.11
USU	39.22	143.00	203.30
SUU	21.61	2.73	(7.89)
WSU	5.90	30.09	22.00
UVSC	(19.71)	50.15	70.44
DIXIE	(32.28)	11.45	8.39
SLCC	120.69	144.80	81.49

For fiscal year 2006, the University of Utah's 453.11 unfilled FTE positions equaled 12.3 percent of their 3,684.53 actual education and general (E&G) FTEs. Utah State's percentage equaled 10.46 percent, and Dixie's percentage equaled 2.08 percent. This information is shown in Figure 3.2.

Figure 3.2. Institutions of Higher Education Vary in the Percent of Vacant Positions Reported. Some public institutions of higher education have a high percentage of budgeted vacant FTE positions at the end of each fiscal year.

Vacant FTE Positions as a Percent of Total Budgeted			
School	FY2004	FY2005	FY2006
U of U	12.55%	12.48%	12.30%
USU	2.09	7.36	10.46
SUU	3.99	0.48	(1.37)
WSU	0.42	2.07	1.51
UVSC	(1.36)	3.52	4.74
DIXIE	(9.52)	2.93	2.08
SLCC	8.85	10.24	5.85

The actual number of vacancies that occur in a given year can fluctuate daily, our concern is that no control exist to address positions that may be budgeted for and never filled.

The actual number of vacancies that occur in a given year can fluctuate daily for institutions as large as the University of Utah and Utah State University. Each institution of higher education fills vacancies at their discretion, and institutions generally do not track or report the length of time that positions have been left vacant. For higher education, no controls exist to address positions that may be budgeted for and never filled.

For state agencies, the Executive Director for the Department of Human Resource Management (DHRM) is required by statute to submit an annual report to the Governor and the Legislature reporting budgeted vacant positions. *Utah Code* 67-19-6 (r) reads:

The executive director shall: develop a procedure by which each agency will: identify funded vacant positions to the department; [and] identify all funded employee positions in each agency that have been vacant for more than 180 consecutive days during the 18-month period prior to July 1 of each year.

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. While overstatements in personnel budgets may be primarily the result of natural turnover, we are concerned with budgeted positions that may never be filled. We were unable to document the length of time

If an institution 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.

budgeted positions have been left vacant because adequate documentation does not exist at the institutions we reviewed. 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.

We therefore recommend that the Board of Regents require public institutions of higher education to report vacancies for staff positions using similar criteria that state agencies use to report vacancies to DHRM. We also recommend that the Board of Regents work with public institutions of higher education to determine criteria for reporting faculty positions. Because of the complexities involved in recruiting and hiring faculty, one year may be more appropriate than 180 days (six months) for these positions. Finally, we recommend that the Legislature consider requiring the Board of Regents to submit this information to them annually through the Legislative Fiscal Analyst.

Recommendations

1. We recommend that the Board of Regents require institutions of higher education to track and report vacant positions.
2. 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 does not fall within an acceptable range, the Board of Regents should require the institution to report why.
3. 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.
4. 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.

Appendix

The following figures show the differences between budgeted amounts and actual expenditures for each of the nine institutions of higher education broken down by personnel and non-personnel services. The percent columns show the percent variance of the differences between budgeted and actual amounts compared to actual expenditures for personnel and non-personnel services.

To help 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 state's Board of Regents.

Figure A-1 University of Utah

Fiscal Year	Personnel		Non-Personnel	
	Difference = Budget/Actual	Percent Variance	Difference = Budget/Actual	Percent Variance
2003	\$17,193,546	8.24%	(\$12,539,198)	29.92%
2004	15,224,082	7.02	(10,231,493)	23.46
2005	12,527,754	5.46	(16,273,696)	31.75
2006	17,413,295	7.24	(18,553,587)	32.02

Figure A-2. Utah State University

Fiscal Year	Personnel		Non-Personnel	
	Difference = Budget/Actual	Percent Variance	Difference = Budget/Actual	Percent Variance
2003	\$1,831,851	1.63%	(\$1,502,081)	6.17%
2004	(1,060,385)	.91	(6,137,661)	20.86
2005	2,145,869	1.77	(10,370,318)	33.87
2006	7,369,083	5.94	(12,443,232)	35.82

Figure A-3. Southern Utah University

Fiscal Year	Personnel		Non-Personnel	
	Difference = Budget/Actual	Percent Variance	Difference = Budget/Actual	Percent Variance
2003	\$226,553	.76%	\$382,832	6.66%
2004	329,759	1.08	(129,074)	1.94
2005	(46,447)	.14	98,511	1.46
2006	674,447	1.97	105,621	1.47

Figure A-4. Weber State University

Fiscal Year	Personnel		Non-Personnel	
	Difference = Budget/Actual	Percent Variance	Difference = Budget/Actual	Percent Variance
2003	\$ 427,554	.60%	(\$279,329)	2.21%
2004	845,280	1.15	(639,002)	4.79
2005	2,342,294	3.05	604,231	4.49
2006	3,672,514	4.55	255,714	1.83

Figure A-5. Utah Valley State College

Fiscal Year	Personnel		Non-Personnel	
	Difference = Budget/Actual	Percent Variance	Difference = Budget/Actual	Percent Variance
2003	\$ 752,477	1 .15%	(\$1,054,047)	9.05%
2004	(1,234,624)	1.70	97,801	.87
2005	1,919,173	2.61	286,797	2.12
2006	4,016,378	5.06	1,044,447	7.45

Figure A-6. Dixie State College

Fiscal Year	Personnel		Non-Personnel	
	Difference = Budget/Actual	Percent Variance	Difference = Budget/Actual	Percent Variance
2003	\$1,215,336	7.62%	\$1,290,359	30.63%
2004	(470,812)	2.84	2,576,827	57.87
2005	2,104	.01	1,204,040	25.96
2006	247,725	1.28	410,658	7.87

Figure A-7. Salt Lake Community College

Fiscal Year	Personnel		Non-Personnel	
	Difference = Budget/Actual	Percent Variance	Difference = Budget/Actual	Percent Variance
2003	\$7,958,118	14.56%	(\$4,691,977)	26.12%
2004	5,534,131	9.66	(2,880,665)	15.89
2005	5,056,939	7.90	(867,976)	5.77
2006	4,309,304	6.29	340,681	2.24

Figure A-8. Snow College

Fiscal Year	Personnel		Non-Personnel	
	Difference = Budget/Actual	Percent Variance	Difference = Budget/Actual	Percent Variance
2003	(\$ 112,767)	.91%	(\$437,850)	12.34%
2004	(521,632)	3.96	(899,141)	21.45
2005	3,611,823	27.26	(21,760)	.59
2006	207,482	1.19	(762,834)	16.36

Figure A-9. College of Eastern Utah

Fiscal Year	Personnel		Non-Personnel	
	Difference = Budget/Actual	Percent Variance	Difference = Budget/Actual	Percent Variance
2003	\$ 413,395	4.67%	\$ 23,391	.87%
2004	156,210	1.73	(552,141)	21.17
2005	499,010	5.60	(108,113)	3.76
2006	218,394	2.25	(167,004)	4.88

Agency Response

July 11, 2007

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

Dear Mr. Schaff:

Thank you for allowing us to respond to your report titled "A Performance Audit of Higher Education Personnel Budgeting Practices." In general, the Utah System of Higher Education (USHE) agrees with the findings and recommendations included in the audit report. We acknowledge that the incremental budgeting approach employed by higher education institutions is different than the expenditure-based building block approach used by regular state agencies. However, we continue to assert that the incremental approach has evolved over time to meet the unique needs of our industry. This practice is specifically designed to account for significant differences between base and revised budgets, and affords colleges and universities the administrative flexibility they need to match available resources with institutional needs in the most appropriate and efficient manner possible. We will consider the results of this audit in our continuing efforts to improve the relevance and reliability of management data.

We recognize that the data required to draw conclusions about turnover savings are not readily available. Consequently, the USHE has agreed to an additional level of position control. We have also agreed to provide this data to the Legislative Auditor General in support of future audits. However, we reaffirm the need to include most vacant positions in our annual compensation requests. It is indeed the case that our current financing strategy does not attempt to back out unfilled positions or portions thereof. Our strategy acknowledges the fact that the broader employee marketplace is moving during the period when a line is unfilled (i.e., that inflation is a fact of life). A line that stays open for a year, which is typical when recruiting regular faculty, and is not given a price level increase will lose purchasing power equivalent to the extent of inflation in that period. A staff line that stays open for two months and then receives a price level increase on only ten months of the salary will lose purchasing power even if the price level increase exactly matches inflation in percentage terms. Even if non-personnel services were to be "fully funded," personnel budgets would continue to exceed actual expenditures. Managers would continue to attempt to maintain their ability to hire good employees in the face of rising salaries. Managers would also continue to be surprised by abrupt resignations, sudden health problems, and so on.

The USHE acknowledges and appreciates the findings and recommendations related to vacant positions and carryforward balances. We believe this will also lead to a constructive discussion about the management of structural deficits in non-personnel budgets. Commissioner's staff will immediately begin a review designed to remedy the deficiencies noted in the audit report. The following responses to the individual audit recommendations detail specific steps to be taken:

Recommendation 19-1: Concur. The Board will direct institutional representatives to report total carryforward balances, and will eliminate the category for "other deductions."

Recommendation 26-1: Concur. The Board will develop a standard mechanism for tracking and reporting annual changes in vacant positions.

Recommendation 26-2: Concur. To the extent that incremental budgeting and state funding allow, the Board will work to align institutional budgets with actual expenditures. Institutions unable to achieve an acceptable level of accuracy will be required to document and explain variances.

Recommendation 26-3: Concur. In connection with Recommendation 26-1, the Board will identify permanent position vacancies and require corresponding base budget adjustments.

Recommendation 26-4: Concur. In connection with Recommendation 26-1, and as required by the Legislature, the Board will report position vacancies to the Office of the Legislative Fiscal Analyst.

Data referenced in these recommendations and responses will be collected by Commissioner's staff and reported to the Board of Regents. Reports approved by the Board will be available to all parties interested in the higher education budget. Again, we appreciate the opportunity to respond to this audit. We believe we can comply fully with each of the recommendations. If you have any questions, please feel free to contact us.

Sincerely,

Richard E. Kendell
Commissioner of Higher Education

REK/BRF