



Budget Management Process Audit

R-19-02

January 15, 2021

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Rating Matrix

Descriptor	Guide
High	Matters considered being fundamental to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within three months.
Medium	Matters considered being important to the maintenance of internal control or good corporate governance. These matters should be subject to agreed remedial action within six months.
Low	Matters considered being of minor importance to the maintenance of internal control or good corporate governance or that represents an opportunity for improving the efficiency of existing processes. These matters should be subject to agreed remedial action and further evaluation within twelve months.

Distribution List

Title	For Action ¹	For Information	Reviewed prior to release
Chief Executive Director		*	*
Chief Operating Officer		*	
Chief Financial Officer	*		
Senior Manager of Budget & Financial Analysis	*		

¹For Action indicates that a person is responsible, either directly or indirectly depending on their role in the process, for addressing an audit finding.

Executive Summary

Introduction

In conjunction with the Board of Trustees' Audit Committee, Internal Audit (IA) developed a risk-based annual audit plan. This audit was conducted in accordance with the International Standards for the Professional Practice of Internal Audit, published by the Institute for Internal Auditors (IIA).

IA was directed by the Board of Trustees to perform an audit to determine if controls over the Budgeting and Budget Management process are designed adequately and operating effectively to ensure compliance with federal regulations, state laws, and internal policies and procedures as well as to support the achievement of management objectives.

Background and Functional Overview

The Budgeting process is the responsibility of the Executive Director by statute. The Chief Financial Officer (CFO) and the Budgeting and Analysis Group (B&A) that works under the CFO guide the process for UTA, working with key Management personnel to develop strategies and goals to accomplish the overall organizational objective of delivering transit services to the commuters within the transit district.

In addition to driving the annual budgeting process, the B&A group provides other services to the Agency to include supporting the capital budget development process, administer and support the budgeting software solution to include training for executive and departmental leaders in budget preparation. The group also prepares or assists with the preparation of various monthly financial reports, updating actual results in the budgeting software and statistical key performance indicator (KPI) reports such as Headcount, TVM Data, and Investment Per Rider.

The B&A group provides project support and economic analysis support for other aspects of the operation as necessary.

Objectives and Scope

The period of the preliminary assessment was January 1, 2018, through December 31, 2018. The period of the audit focused on January 1, 2019 – December 31, 2019.

The primary areas of focus for the budget management assessment were:

- Governance.
- Operating budget development.
- Capital budget development.
- Budget finalization.
- Select IT general controls (ITGCs) for the operating budget software.
- Monitoring and control.

Internal audit excluded from the scope of this assessment areas such as:

- UTA Employee Pension and Trust internal budget
- Assessment of overall Authority operating effectiveness due to budget decisions

Audit Conclusion Summary

1. Management has drafted standard operating procedures (SOP) to address governance issues noted in the preliminary assessment. As of 01/05/2021, the SOP has not been approved.
2. Management has implemented an organized approach to taking budget meeting minutes.
3. Management was able to provide support and rationale for budget assumptions.
4. An SOP was written to address approval requirements for new users of the budgeting software Magiq. The SOP does not, however, address retention of approval evidence.
5. IA performed re-testing and found there was no discrepancy between the board approved budget and the published budget.
6. IA recalculated budget reserves and debt service and found no discrepancies in budgeted amounts.
7. IA recalculated reserve fund amounts and found no discrepancy.
8. The draft Budget SOP does not address how to seek budget amendments/adjustments.
9. While evidence of budget reconciliations and accountability exists, it is not sufficiently formalized to be an effective control.

Audit Recommendations

- We recommend that the draft SOP be adopted.
- We recommend that Executive Leadership approve the revised budget SOP.
- We recommend that the Budget team update internal standard operating procedures to include retention requirements of software approvals.
- We recommend that the Finance department develop and document a formal process for seeking budget amendments.
- We recommend that the Finance department develop and document a formal process to reconcile actual expenditures to budget amounts.
- We recommend that the Finance department develop and document a formal process to monitor operating and capital budgets and to hold decision makers of those budgets accountable for their financial activities.

Preliminary Assessment Status

Criteria:

Enterprise governance is an overarching system, which seeks to align priorities, funding, and resources and elevates decision making responsibility, authority, and accountability to the appropriate levels. Governance principles include:

- Management establishes reporting lines, with board oversight, of the development and performance of internal control.
- Individually establishes accountability for internal control responsibilities in pursuit of entity objectives.

Sources:

COSO Enterprise Risk Management: Establishing Effective Governance, Risk, and Compliance (GRC) Processes, Robert R Moeller

COSO: How the COSO Frameworks Can Help, James DeLoach and Jeff Thomson

Utah Code

17B-1-702 Local districts to submit budgets. (excerpt)

(b) Within 30 days after it was approved by the board, and at least 30 days before the board adopts a final budget, the board of trustees of a large public transit district as defined in Section 17B-2a-802 shall send a copy of its tentative budget and notice of the time and place for its budget hearing to:

- (i) each of its constituent entities;
- (ii) each of its customer agencies that has in writing requested a copy;
- (iii) the governor; and
- (iv) the Legislature.

(c) The local district shall include with the tentative budget a signature sheet that includes:

- (i) language that the constituent entity or customer agency received the tentative budget and has no objection to it; and
- (ii) a place for the chairperson or other designee of the constituent entity or customer agency to sign.

UTA Board of Trustees Executive Limitations Policies, specifically:

- 1.2.6 Debt Service Reserve and Rate Fund.
- 2.1.8 Service Stabilization Fund.
- 2.3.2 Financial Conditions.
- 2.3.3 Budgeting.
- 3.1.2 Transit Development Plan – Financial Plan.

Condition:

- Although Board of Trustees Executive Limitations Policies were in place requiring the General Manager to budget funds necessary for operation, there were not objectives and measurable goals for budget management established, policies and procedures were not created to further assign ownership roles and responsibilities as well as guide users. The only clear requirement for the organization, identified from UTA governance documentation, is that a budget be produced annually containing certain reserve amounts.
- Even though a set of budget instructions were communicated by the Interim Executive Director for the 2019 budget creation process, it was not considered adequate to function as a policy or SOP for formal governance.

- Although evidence of ad hoc, undocumented, and otherwise informal reviews were identified, outside of the reviews and approvals of the budget performed by the Board of Trustees no formal process of review and approval of budget processes, documents, or reports was identified.
- Periodic budget variance reporting was performed for both operating budgets and capital projects as well as the overall budget in the Monthly Financial Reports to the Board. However, no standard of accountability was defined for over or under spending nor had budget performance measures been documented or followed up.
- Even though budget training was provided by Budget staff, they did not define whether training was required for all users and consequently, training participation was not compulsory.
- Inconsistency or uncertainty in the use of terms such as “Operating Expenses” and “Annual Budget” in the Budget Book and Executive Limitations Policies were noted.

Root/Cause Analysis:

- Goals and objectives for the budget process have not been clearly defined and communicated.
- No risk assessment had been performed to understand the critical risks that exist for a set of well-defined objectives of the budgeting process, including an assessment of critical budget duties being adequately segregated.
- No formalized policy or SOPs to establish governance or guide users through the critical steps in the budgeting process.

Possible Risk:

- No major breakdowns resulting from inadequately designed or ineffective controls was observed in assessment procedures. However, this was likely a result of the understanding and expertise of key employees assuming responsibility for risks rather than good governance. This reliance on individual employees over well designed systems and processes highlights the elevated risk of a loss of institutional knowledge should those key employees leave the organization without imparting that knowledge and expertise to those who follow.
- Budgets may not support UTA’s objectives and goals
- Parties who assumed critical roles, either due to a perceived understanding, informal delegation, or out of a sense of responsibility to the organization lacked authority and assigned responsibilities required for accountability.
- Although Executives were identified during the process as playing a key role in the development, creation, review, and approval of the budget the lack of formalized roles and responsibilities defined as part of good governance led to an increased risk of the following:
 - Not all Executives may have agreed with the final budget in full.
 - Not all Executives may have been aware of all aspects of the Final Budget to be able to agree to it in full.
 - Executives may have had differing understandings of how the final budget supported management objectives.
 - Executives may not have understood that they had a responsibility over the complete final budget and instead relied wholly on the Board’s review and approval as appropriate.
- Inadequate or informal policies or procedures could cause uncertainty or confusion.
- Audit trails were incomplete due to the lack of procedures defining the documentation critical to create and retain which would have supported control effectiveness.

Recommendations:

- To ensure stronger governance for the budgeting process the roles of the Board, the Executive team, other responsible management parties, and users should be clarified.

- Based on the budget goals and objectives developed, a risk assessment over the budget process should be undertaken at an appropriate level of oversight.
- The risk assessment should include an assessment of the entire budget management process and associated sub processes such as, but not limited to, capital budget, operating budget, debt service and extinguishment, budget relation to TFP, monitoring results, reporting, and adequate segregation of duties.
- After completing a risk assessment, a policy for the budget should be created that includes:
 - Assignment of ownership for critical budget responsibilities, including the responsibility for completion, review, approval of significant sub processes.
 - Alignment of budget activities with applicable laws and regulations.
 - Support for and communication of goals and objectives defined for the budgeting process.
- Development of budget related SOPs for critical processes should be overseen by the responsible parties identified in the policy and should include:
 - Identification of the critical steps in the process.
 - Key reviews and approvals needed, if any.
 - Interactions between departments, if any.
 - Process owner(s) identified.
 - How disagreements should be adjudicated.
 - Required documentation to be created and retained to support an audit trail

Management Response and Action Plan:

UTA currently uses a budget calendar to assign high-level responsibilities for each step of the annual budget process. We can develop a more detailed budget calendar for those below the Chief Officer level. We will include the budget process in the risk assessment work being undertaken. Once the risk assessment is completed, we will develop a policy to address any gaps. Along with the policy, we will develop budget SOPs and discuss appropriate documentation.

Target Completion Date:

March 31, 2020

Audit Status

Status:

In Progress

Action Taken:

- The Finance department wrote a standard operating procedure (SOP) to address governance issues from the preliminary assessment. As of 12/31/2020, the SOP has been drafted but not approved.

Recommendation:

- We recommend that the draft SOP be updated as appropriate and adopted with the additional recommendations herein.
- We recommend that Executive Leadership approve the revised budget SOP timely.

Management Response and Action Plan:

- New CFO, Bill Greene, would like additional time to review and refine SOP to reflect his direction of the budget process at UTA.

Target Completion Date:

June 30, 2021

Preliminary Assessment Status**Criteria:**

- UTA Corporate Policy 3.1.2 Transit Development Plan – Financial Plan (TFP)

This policy states that the June revision of the TFP will form the basis for the budgeting process.

- GFOA Budget Best Practices:

Recommended Budget Practices: A Framework for Improved State and Local Budgeting

National Advisory Council on State and Local Budgeting (pgs. 16-17, excerpt)

- The following issues to be taken into account in the tools and techniques that support budgetary practices:
 - Managing the budget process and changes to budget practices.
 - Adjusting for organizational structure and issues.
 - Addressing the organizational culture with regard to the budget process.
 - Desire to have change or to prevent change.
 - Level of resources available for programs.
 - Available level of technical system and support.
 - Dealing with high (or low) expectations.
 - Legal requirements.
 - The level of stakeholder understanding.
 - Accuracy of projections and assumptions.
 - Level of disclosure.

Condition:

- Users, including directors, regional general managers, and Executives, are able to review departmental budgets to the general ledger (GL) account level; however, there was no documented requirement for review or approval of the budgets as they are aggregated up from the Manager level. Although approvals may be thought to be implied by users responsible for operating budgets they were not sufficiently formalized to provide evidence of an audit trail.
- Executive budget planning and review was asserted throughout the budgeting process and supported by the Budget Calendar. However, the Chief Officers' meetings where the work was performed was not recorded. Areas which may have been addressed in VPC meetings or offline but not evidenced included:
 - Monitoring for changes in the operating environment.
 - Review and approval of assumptions used.
 - Review that assumption calculations within the budget software were accurate.
 - Review and approval of budget components.
 - Communication of the budget to all users.
 - Reserves and contingencies being accurately reflected in the budget.
- There are documents to support that a process exists to describe the changes in Executive's budgets, year over year, being supported by actions and measures intended to generate the cost savings needed. Nevertheless, the process was not sufficiently designed and evidenced to be able to test for the assessment.
- Although there was some evidence of reconciliations between related and supporting processes, they were not sufficiently formalized to be able test their effectiveness, including for:
 - Budget assumptions being accurately recorded in budget software.
 - Accounting ERP information being accurately recorded in budget software.

- The TFP and previous year's budget forming the basis for next year's budget in line with UTA Corporate Policy 3.1.2

Root/Cause Analysis:

- No formalized policy or SOPs to establish governance or guide users through the critical steps in the budgeting process.
- Although not determined by audit procedures, under-resourcing may be considered an underlying cause for the lack of documentation to support an audit trail in the Operating Budget process. As there were no SOPs in place to guide users, under resourcing was identified in relation to the gaps noted against best practices as determined by Internal Audit.

Possible Risk:

- Final budgets lacked a clear audit trail to support how amounts were determined and who took responsibility that final amounts were valid, correct, and accurate.
- Mistakes within or from the supporting processes and documents may not be identified.
- Users may not understand their responsibility or accountability in the budget process.

Recommendations:

A policy and SOPs should be designed to align with organizations goals and objectives and the risk assessment (refer to R-19-02-01) for the budgeting process and should include:

- Ownership of the operating budget process.
- Assignment of roles and responsibilities.
- Review and approval requirements.
- Guidance for users in following best practices.
- Defining the documentation required and method of retention to support an audit trail.
- Monitoring of projects for unintended or unanticipated ongoing operating costs.

Management Response and Action Plan:

UTA currently uses a budget calendar to assign high-level responsibilities for each step of the annual budget process. We can develop a more detailed budget calendar for those below the Chief Officer level. We will include the budget process in the risk assessment work being undertaken. Once the risk assessment is completed, we will develop a policy to address any gaps. Along with the policy, we will develop budget SOPs, budget guidance documents, and discuss appropriate documentation.

Target Completion Date:

March 31, 2020

Audit Status**Status:**

Closed

Action Taken:

- Management has implemented a more organized approach to taking budget meeting minutes.
- The Budget and Analysis department was able to provide support and rationale for assumptions, such as fuel prices, that are used in the budget. These assumptions are regularly presented to the Board of Trustees throughout the budget and financial reporting process.
- The remaining issues noted in the preliminary assessment were closed by IA. Reasons for closing an issue can include: the issue is immaterial; new information or evidence was presented that refuted the issue; a change in circumstances made the issue irrelevant.

Recommendation:

- We have no recommendations in the area of operating budget.

Audit Finding R-19-02-03 Capital Budget**Risk Level: Medium****Preliminary Assessment Status****Criteria:**

- GFOA Budget Best Practices:

Recommended Budget Practices: A Framework for Improved State and Local Budgeting

National Advisory Council on State and Local Budgeting (pgs. 16-17)

- The following issues to be taken into account in the tools and techniques that support budgetary practices (excerpted):
 - Managing the budget process and changes to budget practices.
 - Adjusting for organizational structure and issues.
 - Addressing the organizational culture with regard to the budget process.
 - Desire to have change or to prevent change.
 - Level of resources available for programs.
 - Available level of technical system and support.
 - Dealing with high (or low) expectations.
 - Legal requirements.
 - The level of stakeholder understanding.
 - Accuracy of projections and assumptions.
 - Level of disclosure.

Condition:

- There was evidence of a process during the capital budgeting project prioritization process to mitigate the risk of revenue incorrectly assigned to multiple projects but it was not sufficiently formalized or complete to be able to test the control design.
- Subsequent to the prioritization process, \$2M was added to a specific project budget; however, it was unclear whether the addition followed a formalized standard process.
- Carryover projects from the prior year budget were included in the final budget without consideration of reprioritization and their estimates were not reviewed or approved prior to inclusion in the Final Budget approved by the Board. This includes both projects that have been initiated as well as those that were approved but never started.
- Although project proposal forms submitted for budget consideration included 5 year budget horizons, the annual costs beyond the current year for the projects budgeted for were not necessarily reflected in the 5 year horizon of the TFP.
- It was not clear how the determination of funds allocated between operating and capital budgets was made and whether it was made by a representative committee assigned that responsibility.
- There was no review or independent estimate to support that capital project amounts requested or awarded were reasonable.
- Assessment procedures revealed the following:
 - For 1 (of 14) items tested on the 2018 Carryover schedule the carryover amount appeared to be for the life of the project, including for budget periods beyond the carryover period, rather than the amount to be carried over from the current year.
 - For 2 (of 14) items tested on the 2018 Carryover schedule there was no Capital Project Request Form on file which was attributed to one item being added by Management subsequent to the

- prioritization process and one item being carried over from 2016 with no proposal form kept on file.
- For 1 (of 14) items tested on the 2018 Carryover schedule the budget requested was less than the budget approved. Management did not have a documented process to update, revise, or otherwise adjust the budget request form to reflect the increased amount. Although management may have approved the increase during their budgeting sessions, the risk remains that amounts requested and needed may not be accurately reflected in the budget.
- For 1 (of 14) items tested the 2019 budgeted amount was more than the supporting documentation implied, which was traced to the 2018 capital project carryover schedule and 2019 prioritized project listing.
- For 1 (of 14) budgeted capital projects tested no proposal form was required because it represented an amount budgeted for discretionary use. IA noted that the awarding of discretionary funds did not follow a documented or formal process and also represented unique risks in the awarding and spending of those funds for which IA could not identify mitigating controls.
- A reconciliation process appears to have been performed for the finalized carryover amounts; however, it was informal and therefore did not meet the minimum standard of a control.
- Although a prioritized listing of capital projects was created by a team overseen by the Director of Capital Projects, it could not be agreed in whole to the capital project listing in the 2019 Final Budget Book, nor could support or approval of adjustments be obtained.
- Although a process was undertaken to review the TFP and reconcile it to the initial capital budget amount, the process was managed through emails and was not tracked or reviewed formally for validity, accuracy, or completeness.

Root/Cause Analysis:

- The capital project prioritization process, including any adjustments, was done offline without tracking user input or documentation of ownership, including oversight approval of the process or results.
- There were no SOPs or authoritative guidance to lead users through the capital budgeting process using best practices, including no formal:
 - Process that guides users in transferring budget between projects including:
 - Overall responsibility to oversee transfers.
 - How transfers are tracked.
 - How transfers should be agreed to.
 - Methodology for identifying or supporting when budgets are set below previous year actual expenditures.
 - Process or requirement to assess past capital budget activities and results for new learnings.

Possible Risk:

- Without adequate oversight and authority, as well as SOPs and supporting documentation, users may have had to rely on negotiation rather than on organizational goals and objectives as a means to establish budget amounts.
- Projects may have been pursued for reasons other than what was intended by the Board. Due to the ad hoc nature of the process of adding budget funds during the process there was an increased risk that they may not be sufficiently understood or approved.
- Amounts budgeted for specific projects may have been inadequate or overestimated due to a lack of supporting processes and oversight.
- Critical projects may have been passed on while projects approved were not initiated.

Preliminary Assessment Recommendations:

A policy and SOPs should be designed to align with organizations goals and objectives and the risk assessment (refer to R-19-02-01) for the budgeting process and should include:

- Ownership of the capital budgeting process.
- Assignment of roles and responsibilities.
- Review and approval requirements.
- Guidance for users in following best practices.
- Defining the documentation required and method of retention to support an audit trail.

Management Response and Action Plan:

UTA currently uses a budget calendar to assign high-level responsibilities for each step of the annual budget process. We can develop a more detailed budget calendar for those below the Chief Officer level. We will include the budget process in the risk assessment work being undertaken. Once the risk assessment is completed, we will develop a policy to address any gaps. Along with the policy, we will develop budget SOPs, budget guidance documents, and discuss appropriate documentation.

Target Completion Date:

March 31, 2020

Audit Status

Status:

Closed

Action Taken:

- Internal Audit began an audit of capital projects in 2020 that addresses the issues of independent project estimates not being completed and circumvention of the project proposal process.
- The remaining issues noted in the preliminary assessment were closed by IA. Reasons for closing an issue can include: the issue is immaterial; new information or evidence was presented that refuted the issue; a change in circumstances made the issue irrelevant.

Recommendation:

- We have no recommendations in the area of capital budget.

Audit Finding R-19-02-04 Information Technology General Controls

Risk Level: Low

Preliminary Assessment Status

Criteria:

Corporate Policy 1.1.23, Information Security Policy, Application Access Control states, “1. Access to UTA's systems applications must be restricted to those individuals who have a business need to access those applications or systems in the performance of their job responsibilities and have approval from the IT Director, or designee and the business owner (Manager level or above).”

Condition:

- The budget software license and support agreement did not outline what constitutes ongoing application support.
- The budget software was not able to generate a report of activity, including timing and extent of users locked out of the system for budgetary control purposes, changes to master data, or tracking changes made to operating budgets other than the most recent.

- Changes to master data were not formally monitored, reviewed, or approved. Although the budget team does perform periodic reconciliations of information between the Accounting ERP system and the budgeting software, the reconciliations are not sufficiently documented or otherwise formalized to be able to test for effectiveness.
- Assessment procedures revealed that 7 (out of 13) budget software users selected for testing did not have access approval emails from Director level or above because they were original users and an approval control did not exist at the time their access was given.
- During the assessment it was also observed that all support for the budget software came from the vendor with no internal support from IT provided other than normal server backup. Additionally, it was understood by management that budget software would support workflow management but that functionality had not been pursued.
- It is unclear whether the original Software and License Agreement on file is current nor was any subsequent Software and License Agreement identified during assessment procedures.

Root/Cause Analysis:

- IT did not have a formal role in reviewing the original or subsequent license and support agreements.
- There were no SOPs in place regarding:
 - Administration of budget software.
 - User accounts.
 - Change management.
 - Data validation.
 - Change management procedures.

Possible Risk:

- Should the vendor be unwilling or unable to provide support for the budget software to UTA it is unclear what recourse may be available, including whether IT would be able to support the program internally.
- Although a limited audit trail exists, should disagreements arise as to accountability for budget amounts it is uncertain that the budget software could identify the user attributable.
- Amounts originating in the Accounting ERP and reported by the budgeting software may not be accurate, valid, or complete and errors may not be identified timely.
- The budget software may not be viewed as a source of truth and its role in the budgeting process may not be consistently understood.

Preliminary Assessment Recommendations:

- The budget software owner should work with IT to review the software agreement and request modifications, where appropriate, including
 - Provisions regarding backups of the application or database.
 - Performance metrics.
 - Provisions on software updates and build versions.
- SOPs for the administration of budget software should be developed, including user accounts, classification of data and required protections (if any), and change management.

Management Response and Action Plan:

Budget staff will work with IT to review the software agreement and seek modifications as well as develop SOPs for administration of the budget software.

Target Completion Date:

March 31, 2020

Audit Status

Status:

Closed

Action Taken:

- A new SOP was written to address approval requirements for new users, but does not address retention of approval evidence. This is a minor risk because user roles are limited within Magiq and access to any internal software is controlled by Active Directory and documented by IT as part of provisioning processes.
- The remaining issues noted in the preliminary assessment were closed by IA. Reasons for closing an issue can include: the issue is immaterial; new information or evidence was presented that refuted the issue; a change in circumstances made the issue irrelevant.

Recommendation:

- We have no recommendations in the area of Information Technology General Controls.

Audit Finding R-19-02-05 Budget Finalization

Risk Level: High

Preliminary Assessment Status

Criteria:

- Executive Limitations Policy 2.3.3 Budgeting

This policy assigns ownership of the budgeting process to the General Manager and requires that a budget be performed annually.

- GFOA Budget Best Practices:

Recommended Budget Practices: A Framework for Improved State and Local Budgeting

National Advisory Council on State and Local Budgeting (pgs. 16-17)

- The following issues to be taken into account in the tools and techniques that support budgetary practices (excerpted):
 - Managing the budget process and changes to budget practices.
 - Adjusting for organizational structure and issues.
 - Addressing the organizational culture with regard to the budget process.
 - Desire to have change or to prevent change.
 - Level of resources available for programs.
 - Available level of technical system and support.
 - Dealing with high (or low) expectations.
 - Legal requirements.
 - The level of stakeholder understanding.
 - Accuracy of projections and assumptions.
 - Level of disclosure.

Condition:

- Subsequent changes to the Final Budget, if any, do not go to the Board for approval.
- Due to the lack of formality in design and documentation IA was unable to test the following:
 - Reconciliations between the approved budget and;
 - budget software amounts,
 - capital budget prioritization,
 - final budget book, and
 - Transit Financial Plan (TFP)

- Review of reserve funds included in the budget.
- Review of debt service and capital repayment amounts included in the budget.

Root/Cause Analysis:

In the absence of organizational goals and objectives, policies, and procedures for the budgeting process, users were left to develop their own goals and processes.

Possible Risk:

Lack of standardized processes increased the risk that results were not appropriately monitored and that responses may not have been consistent with organizational goals.

Preliminary Assessment Recommendations:

- Based on the results of a risk assessment, the owner of the budget finalization process should oversee the development of SOPs to address the critical risks identified with adequate controls designed to mitigate those risks.
- Roles and responsibilities should be documented that align with controls designed and clearly outline what is expected of all participants in the process.

Management Response and Action Plan:

We will develop SOPs which outline roles and responsibilities throughout the budgeting process and provide controls designed to mitigate risks.

Target Completion Date:

March 31, 2020

Audit Status

Status:

Closed

Action Taken:

- IA observed public workshops that included Board Review of the final budgets and the final adoption of the Budget for Fiscal 2021 on 12/16/2020.
- IA performed re-testing and found there was no discrepancy between the board approved budget and the published budget.
- IA recalculated budget reserves and debt service and found no discrepancies in budgeted amounts.

Recommendation:

- We have no recommendations in the area of budget finalization.

Audit Finding R-19-02-06 Monitoring and Control

Risk Level: High

Preliminary Assessment Status

Criteria:

- GFOA Budget Best Practices:

Recommended Budget Practices: A Framework for Improved State and Local Budgeting

National Advisory Council on State and Local Budgeting (pgs. 16-17)

- The following issues to be taken into account in the tools and techniques that support budgetary practices (excerpted):

- Managing the budget process and changes to budget practices.
- Adjusting for organizational structure and issues.
- Addressing the organizational culture with regard to the budget process.
- Desire to have change or to prevent change.
- Level of resources available for programs.
- Available level of technical system and support.
- Dealing with high (or low) expectations.
- Legal requirements.
- The level of stakeholder understanding.
- Accuracy of projections and assumptions.
- Level of disclosure.

Condition:

- Assessment procedures for budget monitoring and control revealed the following:
 - Operating budget variance analysis was performed at the department level and not at the GL account level as budgeted.
 - Although there is a process to monitor capitalized project labor allocations it is not sufficiently defined or formalized to mitigate the risk that all issues are identified and followed up on.
 - The tracking analytic for capitalized labor allocations was not reviewed or approved for validity, accuracy, or completeness.
 - The follow ups performed for capitalized labor allocations that did not match expectations were not documented.
 - Expectations for labor allocations were not included in the project labor allocation tracking file.
 - There was no formal process defined for making related budget adjustments. Adjustments, if they were done, were on an ad hoc basis.
- Due to a lack of formality of the procedures, IA was unable to test:
 - Whether reconciliations between the Final Budget and reported budgets were complete, accurate, and valid.
 - That reserve funds included in the final budget were reviewed for accuracy, validity, and completeness.
- For 1 (of 2) budget variance items tested, the identified cause of the variance was not in agreement with the general ledger detail.

Root/Cause Analysis:

- The gaps and ineffectiveness identified for monitoring and control of the budget process was ultimately attributable to the lack of goals and objectives defined for the process, an inadequate governance structure, which lacked a policy and related SOPs.
- There was no process to hold budget owners accountable for actual to budget expense variances.
- Reviews of variance and monitoring reports, as well as related variance explanations, for validity, accuracy, and completeness were not required or in evidence.

Possible Risk:

- Budgets may not have been monitored sufficiently or at the appropriate level of authority to identify issues.
- Changes to budgets, if any, may have been made without appropriate review and approval or further monitoring.

Preliminary Assessment Recommendations:

- Based on the results of a risk assessment, the owner of the budget process should oversee the development of monitoring processes and controls to mitigate those risks, as applicable.
- Roles and responsibilities should be documented that align with controls designed and clearly outline what is expected of all participants in the process.

Management Response and Action Plan:

We will develop SOPs relating to processes for monitoring and control of budgets and clearly indicate responsibilities and expectations.

Target Completion Date:

March 31, 2020

Audit Status

Status:

In Progress

Action Taken:

- The draft Budget SOP does not address how to seek budget amendments/adjustments.
- The issue of capital labor allocations will be addressed through the Capital Projects audit.
- While evidence of budget reconciliations and accountability exists, it is not sufficiently formalized to be an effective control.
- The remaining issue noted in the preliminary assessment was closed by Internal Audit. Reasons for closing an issue can include: the issue is immaterial; new information or evidence was presented that refuted the issue; a change in circumstances made the issue irrelevant.

Recommendation:

- We recommend that the Finance department develop and document a formal process for seeking budget amendments.
- We recommend that the Finance department develop and document a formal process to reconcile actual expenditures to budget amounts.
- We recommend that the Finance department develop and document a formal process to monitor operating and capital budgets and to hold decision makers of those budgets accountable for their financial activities.

Management Response and Action Plan:

1. As outlined in the Management Response for Audit Finding R-19-02-01, the new CFO, Bill Greene, is requesting addition time review and refine SOP to reflect his direction of the budget process at UTA. Suggested target completion date is June 30, 2021.

As part of the SOP review and refinement process, Finance will develop and document a formal process for seeking budget amendments in the revised SOP.

2. Finance is in the process of developing a revised operating reporting/reconciliation structure and process. Finance will develop a process to hold budget variance analysis meetings and improve monthly and quarterly operating budget reports for revenues, expenditures, and key finance function activity measures. Variances analysis will be documented at the Agency level with material variance drill- down to the office and department level. The first meeting is anticipated to be held at the end of the first quarter.

As part of the SOP review and refinement process, Finance will document this process in the revised SOP

or create a new SOP.

3. This recommendation will be substantially satisfied through Management Response #2 above. Additionally, a new process is being developed in coordination with the Service Development Office, Asset Management Department, and the Capital Project community to improve capital monitoring, reporting and program delivery/accountability. This process will be focused on project/program delivery and accountability.

This new process involves the creation of more rigorous capital project and program monitoring reporting processes, more frequent and in-depth variance analysis and regularly scheduled Executive level review of project/program delivery. Like the Operating Program monitoring/reporting improvements discussed in Management Response #2 above, the first meeting is anticipated to be held at the end of the first quarter.

As part of the SOP review and refinement process, Finance will document this process in the revised SOP, or create a new SOP.

Target Completion Date:

June 30, 2021