



**Internal Audit
Memorandum**

**UW Tacoma
Review of the 2019/20
SIAS Budget Process**

September 2020

Submitted to: Mark Pagano, Chancellor
UW Tacoma

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September 16, 2020

Mark Pagano, Chancellor
UW Tacoma

Re: UW Tacoma Review of the 2019/20 SIAS Budget Process

Please find enclosed the final memorandum related to the work conducted to review the UW Tacoma 2019/2020 SIAS Budget Process.

We appreciate all the assistance we received from your staff during this review. We also appreciate the level of engagement of all individuals we spoke with on this project. If I can be of further service, please call me at 543-4028.

Sincerely,

A handwritten signature in black ink that reads 'Richard Cordova'. The signature is written in a cursive style with a large, prominent 'R'.

Richard Cordova
Executive Director
Internal Audit

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Executive Summary

In December 2019, the Internal Audit Department received three requests to review and evaluate the UW Tacoma Budget process for fiscal year 2019/20. These requests came from an anonymous report to the Internal Audit Hotline on December 9, 2019; from Ellen Moore, UW Tacoma Faculty and Chair of the SIAS Faculty Council on December 18, 2019 and from Chancellor Mark Pagano on December 20, 2019.

All of the requests focused on determining the validity of the statements made by the Chancellor, the Dean of the School of Interdisciplinary Arts and Sciences (SIAS), and the Executive Administration of UW Tacoma (Executive Vice Chancellor for Academic Affairs (EVCAA) and the Vice Chancellor of Finance (VCF)) related to the process of creating, setting, approving and implementing the 2019/20 UWT SIAS budget. Also requested was the verification of the actual budget dollars for the 2019/20 SIAS budget and specifically, the three questions summarized below:

1. Does UW Tacoma, and more specifically SIAS have a sound transparent budget process?
2. What happened within SIAS Budget Process in 2019/20? Who knew what & when.
3. Does the budget information flow from Chancellor to Dean to Faculty make sense from a faculty perspective?

As of November 22, 2019 the approved budget of SIAS was approximately \$13.69M and was accurately included in the documents provided by the Chancellor to the SIAS Faculty at a meeting on December 6, 2019. This includes the additional funding that SIAS received in October 2019 in the amount of \$521k based on requests from SIAS of the EVCAA and the Executive Budget Committee (EBC) for full and part time temporary lecturers. We did not find any evidence of financial fraud or misrepresentations, but identified multiple errors in the information shared among the parties, misunderstandings, and the lack of training on the budget process.

The SIAS budget process in 2019/20 was significantly impacted by the following events:

1. The departure of the SIAS Director of Finance & Operations in October 2018 with no replacement hired until July 2019.
2. The introduction of a “new” budget process for UW Tacoma in November 2017, combined with the FY 2019/20 budget being the first impacted by a biennium close.
3. No scheduled training sessions on the new budget process and the impact of biennium close.
4. Inadvertent miscommunication by the three key parties on the certainty of funding of temporary lecturer salaries from June 2019 through October 2019.

Based on the information gathered, the combination of these events led to a cascading of challenges for SIAS to create a budget for 2019/20 and to allow the Dean to make timely decisions with a “high level of confidence” on the budget for temporary lecturer’s salaries. Ultimately the fiduciary and fiscal responsibility for SIAS is the Dean’s (including budgetary, class schedules, class availability and all other operations). Training on the new budget procedures should have been offered by the Vice Chancellor for Finance.

Review Memorandum

The following sections of this memorandum describe in detail responses to the three core questions above and the situations which support the opinion of the shared responsibility as well as recommendations to be considered by UWT for the future.

Questions to be answered by this project

1. Does UW Tacoma and more specifically SIAS have a sound transparent budget process?

In the time frame from November 2018 – September 2019, the SIAS budget process was not sound and could have had better transparency. SIAS had lost their Director of Finance & Operations in October 2018 and no one with a similar level of budget experience was hired until July 2019. Additionally, the recently amended budget processes had changed and the individuals who undertook the project of assisting the Dean in preparing the budget had not been trained on the new process, thus information and decisions were being made without a full understanding of the process and policies and what was to occur with the initial “right sized” budget and the related commitments of SIAS. The perception of the budget challenges within SIAS during the January – June 2019 timeframe are somewhat confirmed by the fact that the other schools within UW Tacoma did not experience the same level of challenges with the new budget process, which most of the other schools had more consistent budget personnel/support throughout this period.

A key point which was not fully understood by SIAS fiscal management, and thus the Dean, was the nuance of how faculty lines treatment was changed from FY2017 to FY2019 for SIAS, (this process had been changed for other schools in FY 18). The funds related to vacant lines during the two-year process of refilling a vacant position were not guaranteed to the school. In years prior to 2018, a school was able to retain all of the budgeted funds for a faculty, even when that faculty position was filled by a lecturer – thus creating a process of “retaining excess budget dollars” and rolling them over to the next year.

This process was suspended in 2018 for SIAS and was in effect for 2019 under the “Right sizing budget initiative”. Under this initiative, the empty lines of salary would be “swept” centrally and then a School was to request funds to pay for the temporary lecturer’s salaries to fulfill class requirements. The funds would be allocated to the School’s budget, but not until request for those funds had been reviewed and approved by the EBC. UWT Finance and Administration and the EVCAA considered an open position funds as those to be used for the overall initiatives of the campus.

SIAS stated that this process was not clearly explained to them. This process acknowledged that in any given year there would be vacant positions and the monies related to those positions could not be “retained” and carried over for long periods of time to shield budget overruns in other areas. This new process was not known in SIAS and led to a level of concern that without budget certainty, courses offered to students for registration in April may not have faculty to instruct them in September.

2. What happened within SIAS Budget Process in 2019/20? Who Knew What When?

A summary of the period from October 2018 through December 2019:

October 2018 – December 2018

- **The Director of Finance & Operations leaves SIAS in mid-October 2018.**
- The Dean, to address excessive hierarchy in the SIAS staff org. structure, agreed to work with VC Organizational Effectiveness to reorganize SIAS staff and assigns administrative personnel within SIAS with the fiscal responsibilities of the former Director until such time as a new Director can be hired.
- The SIAS staff tasked with creating the 2019/20 SIAS budget would be taking on new responsibilities in addition to those already assigned.
- The Vice Chancellor for Finance (VCF) rolled out an updated “new” budget process for the FY 2019/20 in November 2018. The new budget process was approved by the Executive Budget Committee (EBC) at its November 19, 2018 Meeting (See UW Tacoma Budget Primer – November 2018).
- This updated process heavily focused on projected institutional margin of the University and the decreasing margin trends over the last six years. The process also laid out the steps in the budget approval process beginning in December 2018 and culminating with the Chancellor’s budget decisions to be delivered in May 2019.
- The document also noted key changes to the process and laid out a time line of activities which would take place from January 2019 to June 2019. The document noted that all school budgets were expected to be delivered to the VCF by February 2019. Prior to February 2019 submissions, each school should have identified its commitments and other strategic needs for delivery to the EBC for evaluation and approval. This process was to assist in the coordination, evaluation and approval of multiple campus requests by the EBC, as the expectation was that not all requests could be funded.
- No e-mails or other communications alerting the schools fiscal officers of training on the process and the potential nuance with previous year’s processes, the impact of the upcoming biennium close and an effort to minimize confusion and ensure transparency were identified. The VCF stated that a number of schools had issues but the only school which experienced significant challenges was SIAS.

January 2019 – June 2019

- **An initial “right-sized” budget totaling \$12.4M was delivered to SIAS in January 2019** and was below the current year budget and the current year projected final expenditure totals. This did not include any “one-time” commitments of SIAS.

- Upon seeing the new process and understanding the current budget of SIAS, the finance team within SIAS should have begun to model the implications of a new budget process to communicate the challenges for SIAS or to allow appropriate planning of courses and other activities within the school. However, the calculations created by the SIAS team in February 2019 utilized the same methodology as would have been used in prior years and did not acknowledge the new requirements for approvals and the lack of automatic carryover of budget funds from prior year’s savings.
- The SIAS team created a number of budgets which were provided to the VCF in February a number of which included a mathematical error such that total budget in document was approximately \$16.2M.
- The Dean was provided a \$16.6M budget to be submitted to the EVCAA and VCF.
- During February 2019 the VCF received a budget from SIAS which was much higher than the right sized budget, nearly \$3.0M higher; however, the focus was on a review of the SIAS faculty lines and the temporary employee requests. The VCF did not identify the spreadsheet error.
- For the next three months, Feb – May 2019, the budget was not corrected and Internal Audit did not identify any documents to demonstrate significant information being shared during this period.
- During February through June there was **no request by SIAS personnel nor an offer to provide training on the budget process and BGT system to SIAS personnel**. This did occur once SIAS hired a new Finance Director in July 2019.
- We did note that there were many individual and small group meetings to discuss sticking points in the budget or to go over the individual line items but no comprehensive budget meeting.
- The EVCAA throughout the February – April 2019 period was working with the school on individual requests and adjustments. Then learned, in the May – June 2019 period, via communication with the VCF, of the growing misunderstanding related to significant budget differences between the SIAS and VCF budgets and the perception of an SIAS budget cut.
- In May a corrected budget spreadsheet was identified and fixed by the Divisional Manager for Sciences and Mathematics. This budget reconfirmed the concern that SIAS would experience a budget cut. The right-sized “06 budget”, exclusive of one-time requests was being increased, but removal of the one-time monies meant the overall budget was projected to decrease (See Chart B in Appendix).
- The Chancellor was not involved in the communication between the Dean and the EVCAA or VCF at this time but was provided information and updates from both that they were working with the Dean of SIAS and that there was an impression the Dean and her team did not fully understand the new budget process. Additional e-mails noted that the Dean was stating there was a budget cut to her teams but that both the EVCAA and VCF believed all would be worked out.
- **The budget communicated in June 2019 in the amount of \$12.3M from the VCF to the Dean was far below what the Dean had expected**, even though it was close to what had been submitted (See Chart C in Appendix).

July 2019 - December 2019

- **SIAS hires a new Director of Finance & Operations, who starts in July 2019 and** immediately correspondence between the Director and the AVCF begins to evaluate the current SIAS budget situation.
- August 1, 2019 the AVCF completes a reconciliation of the right sized budget providing the Director with a total of \$12.5M as a budget excluding any one-time commitments.
- During the July – September time frame inconsistent communication occurred and certain budget terms were inconsistently used and misunderstood across the units of SIAS, EVCAA and VCF. Once again the lack of a comprehensive training impacted the situation.
- During the period from August 16 – September 30 the core piece of misunderstood information and misinterpretation of information occurred. This was due to a continuing and growing challenge to have the Dean, the VCF and the EVCAA and their respective teams use similar budget terms in a consistent manner, acknowledge that errors had previously occurred and work together to make sure they all had a common understanding of the facts and circumstances around the SIAS budget. Meetings occurred during this time frame but the e-mails and notes exchanged communicated facts without resolving the misunderstandings and miscommunication. These e-mails which were long included significant information summarized below:
 - The initial meetings with Dean, the EVCAA and the VCF and teams primarily occurred separately.
 - Communication to clarify the issues occurred but a common understanding was not reached.
 - Dean met with EVCAA and requested the return of salary from vacant lines of \$622k to fund temporary lecturers' salary to meet the 2019/2020 class schedule.
 - **EVCAA confirmed personnel commitment would be met but would not commit to an amount until visibility into the budget system occurred in October.** EVCAA suggested that they review the requirements quarterly and that all our employee related commitments should be honored.
 - Dean, SIAS Director of Finance & Operations meet with the VCF, left with favorable expectation that the budget issues could be worked out, but Dean would need approval from the EVCAA.
 - In follow-up to these meetings Dean sent message to EVCAA to reconfirm the possibility of obtaining the \$622k to meet all permanent and temporary personnel salary requirements.
 - **EVCAA responded favorably, reconfirmed her expectation that the salary could be returned on a quarter by quarter basis.** The EVCAA also noted there could be no guarantee on the amount until after the BGT system was loaded in October and an evaluation of the actual salary recapture could be provided to SIAS. It was also noted that they would need to work together to evaluate the salary recapture on quarterly basis. **The ultimate amount of support was never agreed to.**
 - EVCAA requested that the AVCF recalculate the swept SIAS salary, which totaled to \$400k.
 - The Dean had already agreed to contracts with temporary lecturers on one year contracts to instruct courses in all three quarters of 2019/2020 and was concerned that SIAS would not obtain the funding to meet all of the school's requirements.

- The Dean cancelled certain courses in late August / early September due to the fiscal uncertainty. This provided time to inform students and identify alternative courses before the quarter began.
- Additionally, during the period from July 1 – August 31, the EBC met at least three times and did not receive a request from SIAS to fund temporary lecturers or part time temporary lecturers.
- **SIAS was told that the budget was frozen over the summer and the VCF later told them it was not frozen.** In this case, the units were using similar terms to mean very different circumstances. The VCF was referring to the “UWT Budget Process” which was not frozen and was fully available to continue to review and evaluate the needs and requirements of the school, but that is not what SIAS understood. In a previous communication from the VCF a comment that the Budget System was frozen over the summer until October was also accurate because the VCF was referring to the University’s BGT System (which closes every biennium and cannot be adjusted again until October). Thus SIAS was operating under an impression that no changes could be made to the budget until October. They also had received communication regarding the inability to spend funds if they were not included in the budget, which combined with an understanding that there would be no “return of vacant salary lines” led to a cascading of decisions by the Dean. **At the end of August 2019, SIAS expected that their budget would only be approximately \$12.78M**, which included \$245,000 of one-time funding commitments, but was hundreds of thousands of dollars below what it needed to meet its obligations and commitments (See Chart B in Appendix).

Ultimately **in October of 2019, an additional \$641k was added to the SIAS budget**, which included \$400k of additional funding to cover temporary lecturer salaries approved by the EVCAA; \$122k to cover additional part time temporary lecturer salaries and certain faculty promotions approved by the EBC and \$119k for two staff positions approved by the EBC. The EBC approvals occurred in October and were included in the budget of \$13.69M described by the Chancellor in the December meetings with faculty (See Chart A in Appendix). The Chancellor did approve these additional funding and approved a final budget of \$13.69M for SIAS, but prior to Mid-October SIAS was under the impression that these funds were not guaranteed. As late as August 26, 2019 when the EVCAA informed the Dean that SIAS would need to go quarter by quarter to see if additional funding would be available, the Dean was not sure of the final budget.

3. *Does the budget information flow from Chancellor to Dean to Faculty make sense from a Faculty perspective?*

Based on review of the new Budget Process, (See UW Tacoma Budget Primer – November 2018) the actual budget information does not flow from Chancellor to Dean to Faculty. The information should flow from Dean to the Chancellor’s Budget Committees and return back to the Dean for final submission, then on to the Chancellor for final approval. The Faculty involvement other than on the Chancellor’s Budget Committees was not significantly noted.

The faculty, to be involved in the budget process needs to participate early in the school’s budget setting process and be aware of the budget policies. During the preparation for the FY2019/20 SIAS budget there were a number of points within which the faculty could have been participating in advance of the final decisions made by the Dean to cancel classes. These points in the process would have occurred prior to June of 2019 and then throughout the summer and thereby would have allowed the faculty to have meaningful input to the process, both prior and during the summer.

Recommendations

1. When a school loses a faculty member late in the school year or during the summer, UWT could consider creating a process which states: (1) Dean to determine if the courses instructed by the departing faculty are needed for the upcoming school year (2) Dean to determine if there are faculty in house to take over these courses (3) If no faculty can be hired, EVCAA sweeps amount of salary less \$8,200 per class (six courses would be approximately \$49k) providing the Dean with certainty of funds for temporary lecturers, (4) if courses are not offered then full amount swept in accordance with current process. This may help limit uncertainty in budget planning.
2. Faculty should not only participate in the EBC, the Chancellor’s Budget Advisory Committee (CBAC) and the Faculty Assembly (Executive Council), but should request to participate in the preparation of the budget including taking particular interest in any strategic initiatives within SIAS and how these initiatives will be funded, the “expected changes” in the budget from the current year, evaluation of the “one-time” commitments to be included in requests to the EBC and ultimately a discussion with the Dean on how any of the previously mentioned proposed changes within SIAS programs will be funded (expected additional funds from Legislature, Chancellor, EVC, tuition, cuts in other programs, cuts in faculty & staff).
3. The VCF should consider implementing training for the key financial personnel on the UWT campus related to the new (now current) budget system, paying particular attention to key changes in fiscal personnel within schools and auxiliary units and the focus on the creation of “one-time” funding versus “on-going” funding.

Appendix

Budget to Actual and Year over Year Comparison

The Chart below includes SIAS budget information as of October 31, 2019 and used by the Chancellor in his presentation in December 2019. The information was available on the VCF – Budget, Planning and Analysis SharePoint website, as of November 22, 2019 at [SIAS FY 2020 Budget at Oct 31 2020](#). November 30, 2019 budget information was not available as of December 6, 2019. Thus the information used by the Chancellor preparing for the December Faculty Meeting would have been current as of December 2019:

Budget Chart A:

UW Tacoma SIAS – October 2019					
Budget Numbers	Budget	Actual Exp.	Budget	Total Change in Budget	% Change in Budget
	6/30/2019	6/30/2019	6/30/2020		
060330	\$11,583,853	\$11,524,646	\$13,006,012	\$1,422,159	12.3%
060333	724,270	420,872	377,928	(346,342)	(47.8%)
740371/740390/750318	998,082	1,049,708	306,876	(711,844)	(71.3%)
Total	\$13,306,205	\$12,995,226	\$13,690,816	\$384,611	2.89%

The assertion that there was a reduction in the SIAS budget year over year is not correct. The actual budget in total dollars increased from FY 2018/19 to FY 2019/20. However, beginning in FY 2019 and instituted as part of the “Right Size” budget initiative the “one time” budget funds included in the “74” budgets above would not necessarily carry-over to the next fiscal year nor would any of the unspent funds from any of the FY 2018 or 2019 budgets carry-over automatically.

Thus SIAS could easily perceive that the \$13.3M. budget which was approved for FY 2018 was being reduced when compared with the “right sized” budget for SIAS of some \$12.3M. The “right sized” budget was provided to SIAS at the start of the budget season in January/February 2019 (see Budget Charts B and C below for calculation of the changes over the budget season).

The Overall Budget situation does not completely address the original three questions regarding the Budget Process. Budget Chart A demonstrates that both when comparing the FY 2019 budget and FY 2019 spend the final FY 2020 SIAS Budget at October 31, 2019 was increased over both and increased more than just the approximately \$300k of Merit and Promotions for SIAS faculty and staff. The detail of the adjustments to arrive at the final SIAS budget of \$13.69M as of October 31, 2019 can be found on the UWT VCF SharePoint site. The specific budget document with all of these adjustments was posted to the SharePoint site on November 22, 2019.

Budget Changes February – October 2019

Budget Chart B and C provide information on the Budget Process from February to October 2019. Chart B includes FY 2019 budget and actual expenses, the initial “right sized” budget supplied by SIAS to VCF in February 2019 and the final budget updated for all requests, increases in salary and one time commitments as of October 31, 2019.

Budget Chart B – By Budget Type:

UW Tacoma SIAS – October 2019					
Budget Numbers	Budget	Actual Exp.	FY 19/20 Budget at	FY 19/20 Budget at	FY 19/20 Budget at
	6/30/2019	6/30/2019	2/6/2019	8/31/2019	10/31/2019
060330 / 060333	\$12,308,123	\$11,945,518	\$12,333,927	12,498,886	\$13,383,940
740371/740390/750318	998,082	1,049,708	0	286,230	306,876
Total	\$13,306,205	\$12,995,226	\$12,333,927	12,785,116	\$13,690,816

Budget Chart C – By Expense Category:

UW Tacoma SIAS FY 2019/20 Budget					
Budget Categories	Budget as of	Budget as of	Budget as of	Total Change June - Oct.	% Change in Budget
	2/6/2019	6/26/2019	10/31/2019		
Faculty Salaries	\$10,250,879	\$10,135,201	\$11,115,356	\$980,155	9.7%
All Other Salaries	1,268,324	1,382,340	1,499,894	117,554	8.5%
Operations	814,723	791,952	1,075,566	283,614	35.8%
Total	\$12,333,926	\$12,309,493	\$13,690,760	\$1,381,323	11.2%

The budget process called for schools to submit FY 2020 budgets in February 2019, the above February 6, 2019 budget represents the initial submission submitted to the VCF. In the intervening period from February to June, SIAS shared budgets with VCF which ranged from \$12.2M to \$17.3M, due to errors in their spreadsheets and line items representing faculty salaries - these were corrected by June 2019.

The most significant change from February to August 2019, was the \$286k in the “74” budgets above and which was specifically identified as a group of formal requests by SIAS of the EVCAA and approved by the EBC in June 2019. These requests were submitted by SIAS and represent commitments to faculty and a certain amount of discretionary budget for the Dean. They were officially recorded in BGT in September and October 2019, but reflected here in August as all parties were aware of these approved funds. Note that part of the new budget process was that “74” budgets represented one-time funds not to be necessarily returned to schools in the following year, unless approved by the EBC.

Because of the prolonged inaccessibility to the budget system occurring at biennium close, the UWT budget process and the lack of a “agreed upon final SIAS Budget by all parties involved (Dean, EVCAA & VCF) the approvals for the return of faculty salary to SIAS for faculty departures was only “tentatively agreed upon” but not promised or approved as of August 31, 2019. After the Dean cancelled Fall classes, the EVCAA and the EBC approved a total of some \$522k for lecturers and part time lecturers into the “06” budgets in October 2019. The remaining increase in salaries from August to October related to \$300k Merit and Promotion increases which were planned to occur and SIAS knew would be funded centrally.