Managerial Reporting – Quarterly Management Reports

**Background**

The Board of Higher Education, at its April 20, 2001, meeting, authorized the Chancellor’s Office to undertake a project to design a *fiscal accountability framework* consistent with fulfilling the fiduciary responsibility of the Board, Chancellor’s Office, and institutions, while recognizing the increased responsibilities of the individual institutions. For purposes of this project, a *fiscal accountability framework* was defined as the management structure, controls, and guidance that assist the Oregon University System (OUS) Board, Chancellor’s Office, and institutions in setting fiscal-related goals and monitoring the performance of those goals. This project was undertaken in response to concerns expressed by the System’s external auditors regarding a diminution, or weakening, of internal controls within OUS resulting from changes that had taken place over the previous years affecting fiscal operations. In particular, the auditors noted increased risk of the inconsistent or lack of application of Generally Accepted Accounting Principles, reduced effectiveness of the management review control, and inconsistent application of standard System policies. The auditors supported this project as a means to address these issues. The final report on the *fiscal accountability framework* project was presented to the Board in February 2002. Detailed information related to the project, as well as the final project report, can be found at the following URL: http://www.ous.edu/cont-div/faq/

One of the recommendations coming out of the *fiscal accountability framework* project was that mechanisms be established to provide assurance to the Board that the financial activity of OUS universities is being monitored on an ongoing basis. It is understood that each university is responsible for monitoring its financial activity. An objective of the *fiscal accountability framework* was to ensure that sufficient controls and documentation are in place to provide the Board with assurance that ongoing monitoring is indeed taking place.

Monitoring OUS’ financial activity is a significant challenge, given that its annual revenues exceed $1.5 billion and its accounting records comprise over 31,000 funds in 28 major fund groups. The *management reporting workgroup* of the *fiscal accountability framework* reviewed various external resources to identify managerial reporting needs. One key resource included a publication entitled *Financial Responsibilities of Governing Boards of Colleges and Universities (Second Edition)*, which was produced jointly by the Association of Governing Boards of Universities and Colleges (AGBUC) and the National Association of College and University Business Officers (NACUBO). Other resources included sample reports from a number of major institutions and systems of higher education, as well as certain reports already produced within OUS, both by the Chancellor’s Office and University personnel. The work group identified 15 management reporting needs, in varying degrees of detail, that would be prepared by each university, reviewed by the Chancellor’s Office, and summarized for the Board. The 15 management reporting needs are listed in Appendix A.

A subsequent work group developed reporting formats to satisfy five of the 15 management reporting needs. The report formats resulted in three reports:
• Comparison of projected end of year amounts to initial and operational budgets
• Comparison of year to date financial activity to prior year
• Tracking of monthly cash balances

The intent was to report the operating activity of the seven OUS universities and the Chancellor’s Office into a series of summarized and useful reports.

The reports noted above and presented herein focus on **unrestricted funds (including budgeted operations of the Education and General and Statewide Public Service Programs; designated operations; service departments; clearing funds; and auxiliary enterprise funds)**. Reports addressing the other funds of OUS will be incorporated in future phases of the managerial reporting project.

The above reports are to be prepared **quarterly**. It was determined that first quarter reports would not be presented because of the timing of the Board approval of the annual operating budget, and because the first quarter occurs before the beginning of fall term and therefore may not be useable for making reasonable year-end projections. Therefore, it was determined that reports would be prepared and presented to the Board for three quarters each year:

<table>
<thead>
<tr>
<th>Quarter Ending</th>
<th>Presented to Board</th>
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<tbody>
<tr>
<td>December</td>
<td>March</td>
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<tr>
<td>March</td>
<td>June</td>
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<td>June</td>
<td>September</td>
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**Analysis**

The attached management reports of unrestricted funds are designed to provide information on the financial activity of the current fiscal year, to identify potential problems, and to provide consistent documentation that ongoing monitoring is taking place. The three reports contain data from the unaudited accounting records as of December 31, 2003.

The actual December 31, 2003, amounts represent unaudited amounts without adjustments. After reviewing the series of unrestricted funds and auxiliary enterprise reports received from each university, we have noted the following:

**Comparison of Current Projections to Initial and Operational Budgets:**

*Initial Budget Approved by the Board for 12 Months Ending June 30, 2004*

The Board approved the FY 2003-04 budget for the unrestricted funds in October 2003. The total expenditure budget, adjusted to match the initial projections for the first year of the biennium, was $1.158 billion, which consisted of $829 million for the Education and General Program (including Statewide Public Services) and $329 million for Designated
Operations, Service Departments, and Auxiliary Enterprises. For the Education and General program (including Statewide Public Services), the $829 million expenditure budget for FY 2003-04 was to be funded from general fund appropriations of $322 million, other funds revenues (tuition and fees, indirect costs, other) and planned use of beginning fund balances totaling $507 million.

The budget deficit occurs because the institutions planned to use $14 million of beginning fund balances during the fiscal year to balance the budget, which is not considered revenue.

**Operational Budget for 12 Months Ending June 30, 2004**

The operational budget refers to the budget amounts in the university accounting records. Universities have varying approaches for recording their operational budgets. One approach is to enter an annual budget in July and, to provide for consistency, not update the budget amounts throughout the year. Another approach revises the budget amounts throughout the year as additional information becomes available. Presenting the operational budget on this report fulfills a requirement established by the fiscal accountability framework relating to the tracking of budget variances.

**Current Projections for 12 Months Ending June 30, 2004, as of December 31, 2003**

The current projections refer to amounts based on current information available from University budget officers. The projections are initially determined from a trend analysis of the prior two years. The projections are then reviewed and revised by University budget officers. The projections become more accurate as the year continues.

**General Fund Appropriations**

General fund appropriations in the initial budget were $322 million. Current projections for government appropriations are $4 million or one percent less than the initial budget approved by the Board. These reductions are due to the failure of Measure 30, which is estimated to have a biennial impact of $8 million.

**Student Tuition and Fees**

The initial budget projected student tuition and fees revenue of $389 million. The current projection of $386 million is lower in comparison to the initial budget due to lower student enrollment than originally projected.

**Other Education and General Revenues**

Current projections for other Education and General revenues have declined by $29 million compared to the initial budget. This is partially related to accounting for the estimated $3 million activity of AHA International (an international study abroad program that recently merged with the UO) in designated operations rather than the Education and General program as originally budgeted. OSU has $15 million in revenues originally included in the initial budget that it does not believe to be recognizable, $7 million of which relates to statewide activities. Other revenue shortfalls relate to the transfer of activities originally included in Education and General to designated operations, lower student enrollment, and other revisions to original projections.
Education and General Expenditures

The current projections for educational and general expenditures are lower by $54 million (net of transfers out of $3 million) or seven percent less than the initial budget. Decreases are due to the shifting of programs from the Education and General program to designated operations, including the activity related to AHA International at UO of $3 million. In addition, it is expected that pension costs, which were reduced in November and December due to the impact of the pension obligation bond deposit into PERS, will rise in the second half of the year when the related debt service assessments are implemented. Another factor giving rise to the reductions is that university departments are reluctant to spend their budgets. The recent history of mid-year budget cuts and unknown impact of the defeat of Measure 30 has caused budgeted spending to be delayed. Spending levels may increase when the final outcome of Measure 30 cuts is known.

Current projections indicate Education and General fund balance will grow by $6 million for the fiscal year.

Designated Operations

Projected revenues and expenditures for designated operations have been adjusted upward by $12 million and $13 million, respectively. This is mainly due to an adjustment for the activity of AHA International, originally estimated as a $3 million program, but now projected to be a $6 million program, and other general growth in designated operations programs.

Auxiliary Enterprises

Projected revenues and expenditures for auxiliary enterprises have declined by $16 million and $10 million (net of transfers out of $19 million), respectively, compared to the initial budget. Housing occupancy rates, athletic ticket sales and athletic tournament participation are lower than projected in the initial budget. In addition, it is expected that pension costs, which were reduced in November and December due to the impact of the pension obligation bond deposit into PERS, will rise in the second half of the year when the related debt service assessments are implemented.

Ending Fund Balance of Unrestricted and Auxiliary Enterprise Funds

The current projected fund balance of $98 million is $2 million less than the beginning fund balance.

Comparison of the Six Months ended December 31, 2003, and 2002:

Government Appropriations

Government Appropriations decreased $45 million for the first six months ended December 31, 2003, compared to the same period in 2002. This is mainly due to a two percent state appropriation decline of $4 million (pre-Measure 30 decline) and a timing difference between the years in the monthly allocation causing a temporary decline of $41 million. Government appropriations are allocated monthly, based on an allocation
plan established at the beginning of the fiscal year. For fiscal year 2004, a larger proportion of government appropriations will be received later in the year.

**Student Tuition and Fees**

Student Tuition and Fees recorded through December 31, 2003, of $272 million increased by $36 million compared to the same period last year. The increase is attributed to the following:

- Tuition and fee increases of approximately $33 million; and
- Increased enrollment of approximately $4 million.

**Designated Operations Revenues**

Designated operations revenues increased approximately $5 million to $22 million for the first six months ended December 31, 2003, compared to the same period last year. The increase is primarily attributed to approximately $3 million relating to the activity of AHA International and approximately $1 million relating to increased sales and services.

**Auxiliary Enterprises Revenues**

Auxiliary Enterprises Revenues increased $6 million to $135 million for the first six months ended December 31, 2003, compared to the same period last year. The net increase is primarily attributed to the following:

- Increased rates for housing, student incidental fees, and parking fees of approximately $6 million;
- Increased athletic revenue of approximately $4 million relating to OSU now recognizing NCAA and television revenues in the month earned instead of the month received;
- Increased housing revenue of approximately $2 million relating to PSU's housing management. PSU housing was previously managed by a non-profit agency; and
- Partially offset by a timing difference in housing revenue of $6 million relating to a change in the revenue allocation between terms at OSU and UO. OSU and UO recognized 33 percent of annual housing receipts as revenue in fall term 2003 compared to 40 percent in fall term 2002.

**Education and General Expenditures**

Education and General expenditures for the six months ended December 31, 2003, are lower than the Education and General revenues. This is because revenues recorded in the first half of the fiscal year include a portion of winter term student tuition and fees while the winter term expenditures are primarily incurred in the third quarter.

Education and General expenses of $347 million for the six months ending December 31, 2003, decreased by $7 million or two percent compared to the same period in 2002. Equipment and library purchases declined approximately $4 million, services and supplies and internal sales reimbursements both declined approximately $1 million. This is believed due to the current reluctance of university departments to spend their budgets given recent history of mid-year budget cuts and the unknown impact of
Measure 30. Wages and benefits remained flat.

**Designated Operations Expenditures**
Designated operations expenditures increased approximately $4 million, with approximately $3 million relating to the activity of AHA International and approximately $1 million relating to sales and services.

**Auxiliary Enterprise Expenditures**
Auxiliary expenditures increased approximately $3 million for the six months ended December 31, 2003, compared to 2002. Total salaries and wages and benefits increased by $2 million. Depreciation increased $1 million.

**Net Operating Surplus (Deficit)**
Net Operating Surplus increased four percent for the six months ended December 31, 2003, compared to 2002. This can be attributed to small net increases in all categories.

**Beginning Fund Balance Adjustments**
This variance relates to the cumulative effect of change in accounting principle reported in the 2003 Annual Financial Report.

**Tracking of Monthly Cash Balances:**

**Cash Balances at December 31, 2003**
The cash balances at December 31, 2003, were comparable to prior months and to the same periods in the prior year.

Additional reports to support the above analysis are on file and are available upon request.

**Conclusions**
OUS universities are responsible for monitoring their financial activity. Much of the financial activity is monitored in relation to the projected year-end totals of revenues and expenditures.

The Controller’s Division requested the management of each university to verify the amounts in the managerial reports, to update annual projections, and to identify and provide explanations to significant variances. The Controller’s Division reviewed the managerial reports and variance explanations provided by each university for reasonableness, and compiled the managerial reports of each university into a series of consolidated OUS-wide reports.

The fiscal status of OUS unrestricted funds (including designated operations, service departments, and auxiliary enterprise funds) at December 31, 2003, is stable. University management has adjusted their budgets and managed revenues and expenditures in response to anticipated revenue and expenditure fluctuations.
Staff Recommendation to the Board

Staff recommends that the Board accept the above management reports for December 31, 2003. Additional reports will be prepared for the quarter ending March 31, 2004, and will be presented to the Board in June 2004.

Appendix A – 15 Management Reporting Needs

The managerial reporting workgroup identified 15 reports, falling into the following categories:

<table>
<thead>
<tr>
<th>Managerial Reporting Need</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preliminary Estimates of Revenue and Expense (annual report)</td>
<td>Implemented</td>
</tr>
<tr>
<td>Estimates versus Actual Comparisons</td>
<td>Implemented</td>
</tr>
<tr>
<td>Revised Estimates of Annual Revenue and Expense</td>
<td>Implemented</td>
</tr>
<tr>
<td>Comparison of Actual Revenue and Expense to Prior Year</td>
<td>Implemented</td>
</tr>
<tr>
<td>Capital Projects Summary</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Development (fund-raising)</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Cash</td>
<td>Implemented</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Investments – Endowments</td>
<td>Investment Committee</td>
</tr>
<tr>
<td>Debt Capacity</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Legal</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Grants/research</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Technology (Information Technology)</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Regulations</td>
<td>To be implemented</td>
</tr>
<tr>
<td>Risk Management</td>
<td>To be implemented</td>
</tr>
</tbody>
</table>