

**Budgetary Process Follow-Up Audit
October 2011**

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Table of Contents

	<u>Page</u>
Executive Summary	1
Audit Scope and Methodology	3
Status of Prior Audit Recommendations.....	4

BUDGETARY PROCESS FOLLOW-UP AUDIT



Office of the City Auditor
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Report #11-16

October 21, 2011

Executive Summary

***11 of 13 prior audit
recommendations fully
implemented***

Fully Implemented

***Fee increases presented
at budget preparation***

***GovMax user training,
reporting and
enhancements***

***Communicating vacancy
savings target and vacancy
savings report***

Annual revenue manual

***Written policy regarding
fees***

Not Implemented

***IT cost allocation and
internal service fund
distributions***

As part of the 2011 Annual Audit Plan, the City Auditor's Office conducted the Budgetary Process Follow-Up Audit. The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objective of the follow-up audit was to determine the implementation status of prior audit recommendations. There were 29 recommendations included in the initial audit report. Management concurred with 16 of the recommendations, partially concurred with two (2) of the recommendations and did not concur with the remaining 11 recommendations.

Of the 18 recommendations for which management concurred or partially concurred, the City Auditor's Office was able to obtain documentation supporting the implementation status for 13 of the recommendations. Of these 13 recommendations (presented in the "Status of Prior Audit Recommendations" section of this report), the City Auditor's Office determined that 11 of the recommendations were fully implemented and two recommendations were not implemented.

Although management concurred with the remaining five recommendations, management did not agree with the associated finding. As such, management did not take any specific action to address these recommendations. The City Auditor's Office, therefore, considered these recommendations as not applicable for the follow-up audit and considers these findings to be similar to the 11 recommendations for which management did not concur.

The City Auditor's Office did not include detailed information in this follow-up report for the 11 recommendations in the initial audit for which management did not concur. Because management did not agree with the recommendation or findings for these 11 recommendations, no specific additional action was taken by management.

In total, management did not concur with 16 of the initial recommendations or their associated finding. Generally, these recommendations were related to the establishment of more formal written policies and procedures related to operating transfers between funds; including the impact of position changes (e.g., reclassifications) within the budget; eliminating non-critical positions that have been vacant for an extended period of time; and taking into consideration each department's vacancy history and available non-payroll funding when determining vacancy savings targets to allocate to departments. Three of the recommendations were related to transfers to/from the General Fund from internal service funds. Under GASB 54 (effective for periods beginning after June 15, 2010), the Mayor and City Council have the ability to commit portions of fund balance for specific purposes. Due to this change, the City Auditor's Office recognizes that the Mayor and City Council may now have more knowledge of operating transfers between funds since Council may need to remove previous fund balance commitments before such transfers can be performed.

Audit Scope and Methodology

Documentation, correspondence and transactions from release of the prior audit through August 2011 were included in the scope of this audit. The audit was conducted in accordance with generally accepted government auditing standards, except for peer review.

The following methodology was used in completing the audit.

- Interviewed Financial and Management Resources (FMR) management and staff members in order to gain an understanding of measures taken to address prior audit recommendations
- Reviewed GovMax training logs and communication to the GovMax vendor regarding future software enhancements
- Reviewed the FY2011 and FY2012 Information Technology (IT) cost allocation schedules
- Reviewed documentation supporting a journal entry to correct an Information Technology internal service fund overcharge

Status of Prior Audit Recommendations

Recommendation:

The City Manager should ensure that fee increases are presented as a part of the budgetary process.

Management's Response:

Concur. Management indicated that this recommendation is already done when practical. Management indicated that staff makes a concerted effort to bring fee increases forward in a unified package at budget time but that it is not always possible for every fee. Management indicated that issues such as changes in state law may drive fee increases outside the budget process. Please see management's complete response attached to this [initial audit, dated June 11, 2010] report.

Target Date: September 9, 2010

Responsibility: Mike Finley, Assistant Director FMR

Implementation Status:

Fully Implemented. FMR management provided documentation indicating that FY2011 and FY2012 fee increases were presented to the Mayor and City Council during the budget process.

Recommendation:

The City Manager should require a written policy regarding the establishment of new fees and charges and/or revisions to currently established fees and charges. The written policy should include, but not be limited to how often fee analysis is conducted and when recommended fees should be presented to the Mayor and City Council.

Management's Response:

Concur. Management stated that there is already a written policy in the City's Financial Principles regarding fee increases. Please see management's complete response attached to this [initial audit, dated June 11, 2010] report.

Implementation Status:

Fully Implemented. FMR management provided the "Statement of Financial Principles", included as an appendix to the adopted operating budget, as documentation that a policy exists for fees and charges. While the City Auditor's Office acknowledges that such a policy exists, it should be noted that a more comprehensive policy, addressing the calculation, legal review, presentation and approval of fees would provide a more consistent framework for departments to follow when establishing and/or revising fees and charges.

Recommendation:

The City Manager should ensure that a revenue manual is prepared annually and includes information relating to future revenues.

Management's Response:

Concur. Please see management's complete response attached to this [initial audit, dated June 11, 2010] report.

Implementation Status:

Fully Implemented. FMR management stated that minimal changes have lessened the priority of an annual revenue manual. Review of the City's website indicated that a FY2010 Revenue Manual is available for review. Management stated that updates to the Revenue Manual will be made as necessary.

Recommendation:

The Financial and Management Resources Director should ensure that GovMax users receive additional training as planned.

Management's Response:

Concur. Management intends to continue providing ongoing training opportunities, and stated that a training manual is available on-line. Please see management's complete response attached to this [initial audit, dated June 11, 2010] report.

Target Date: Ongoing
Responsibility: April Nixon, Chief Financial Officer

Implementation Status:

Fully Implemented. FMR provided additional GovMax training during the FY2011 and FY2012 budget development process.

Recommendation:

The Financial and Management Resources Director should solicit feedback from GovMax users for desired reporting features that would reduce reliance on external spreadsheets and increase efficiency and control.

Management's Response:

Concur. Management indicated that staff has been working with the developers of the software on an ad hoc reporting tool that will allow for custom built reports. Please see management's complete response attached to this [initial audit, dated June 11, 2010] report.

Target Date: November 15, 2010
Responsibility: Mike Finley, Assistant Director FMR

Implementation Status:

Fully Implemented. The City's Office of Management and Budget Division (OMB) has obtained an ad hoc reporting tool which was used to create custom reports that are utilized by departments during quarterly budget analysis.

Recommendation:

The Financial and Management Resources Director should ensure that OMB continues to work with the developer of GovMax to enhance the software and increase its usefulness beyond budget preparation.

Management's Response:

Concur. Management intends to work with the vendor to provide additional enhancements to the software. Please see management's complete response attached to this [initial audit, dated June 11, 2010] report.

Target Date: Ongoing
Responsibility: Mike Finley, Assistant Director FMR

Implementation Status:

Fully Implemented. FMR management provided documentation indicating that they have contacted the software vendor about desired enhancements. Possible future enhancements include the ability to auto calculate the quarterly Budget Analysis Report (BAR), print the budget using GovMax (to alleviate errors that could occur in a cut/paste environment), and have GovMax calculate the long range forecast.

Recommendation:

The City Manager should require that OMB provide departments with details for calculating target amounts that reduce departmental budgets.

Management's Response:

Concur. Management stated that, in the future, the OMB will distribute the vacancy savings distribution calculations to the departments. Please see management's complete response attached to this [initial audit, dated June 11, 2010] report.

Target Date: August 3, 2010
Responsibility: Mike Finley, Assistant Director of FMR

Implementation Status:

Fully Implemented. Management provided documentation indicating that the departments were informed of base budget adjustments, reductions, and the impact of position eliminations during the FY2011 and FY2012 budget cycles.

Recommendation:

The City Manager should require that Department Heads with divisions in multiple funds meet with the IT Director to develop a methodology by which IT's cost allocation can be spread among the appropriate accounting units/funds. This should help alleviate any unnecessary burden to the General Fund and help ensure that the IT Director is aware of departments requiring allocations beyond those initially recommended.

Management's Response:

Concur.

Target Date: June 30, 2010
Responsibility: Louis Carr, IT Director

Implementation Status:

Not Implemented. Management provided the City Auditor's Office with the FY2011 and FY2012 IT chargeback allocation. During review of the FY2012 allocation, the City Auditor's Office noted that the Storm Water Utility Fund did not receive a separate allocation of IT service charges, as it did in FY 2011. According to Public Works staff, a new allocation methodology will be developed for FY2013 to ensure that the IT allocation is allocated to the appropriate funds.

Recommendation:

The City Manager should require that the IT Department prepare a departmental cost allocation to support each proposed Budget Issue. If the Budget Issue is approved, OMB should reallocate costs as recommended by the IT Department.

Management's Response:

Partially Concur. Management believes that this recommendation, if fully implemented, would impose unnecessary burdens on the IT Department to prepare multiple iterations of their chargeback allocations. Please see management's complete response attached to this [initial audit, dated June 11, 2010] report.

Target Date: July 28, 2010
Responsibility: Louis Carr, IT Director

Audit Comment:

Interviews conducted with IT staff, during audit fieldwork, did not indicate an additional burden.

Implementation Status:

Fully Implemented. FMR management stated that the current practice is for the IT Department to prepare a cost allocation to support each approved Budget Issue. Once Budget Issues are approved and the associated IT costs are part of that Budget Issue, OMB and the IT Department

will coordinate to ensure that IT costs are appropriately allocated. Management stated that no Budget Issues were approved in FY2011 and FY2012 that required associated IT chargebacks.

Recommendation:

The Financial and Management Resources Director should confirm the overcharged department(s), require a journal entry to correct the approximate \$71,000 over-billing, and notify the affected department(s) of the correction.

Management's Response:

Concur.

Target Date: June 10, 2010
Responsibility: Mike Finley, Assistant Director of FMR

Implementation Status:

Fully Implemented. The City Auditor's Office noted that a journal entry was prepared in November 2010 to correct the overcharge to the Street Maintenance Fund.

Recommendation:

The City Manager should consider establishing a policy that requires that any "excess" fund balances in internal service funds be distributed equitably to the original source.

Management's Response:

Concur. Management concurred with this recommendation as related to returning grant funds.

Target Date: As transfers are initiated
Responsibility: Mike Finley, Assistant Director of FMR

Implementation Status:

Not Implemented. Management did not establish any new policy, but stated their intent to return any excess fund balance in internal service funds (that are attributable to contributions from grant funds) in proportion to their respective contributions to the internal service funds.

The only internal service fund that made an operating transfer to the General Fund subsequent to the initial audit report (released June 11, 2010) was the Workers' Compensation Fund for \$1 million. The transfer was approved by FMR management and posted to the general ledger on July 31, 2010 to create the Business Continuity Reserve. The General Fund was the only fund that received an operating transfer from the Workers' Compensation Fund, although multiple funds, including various grant funds, had contributed to the internal service fund throughout the year. The City Auditor's Office estimated that the grant funds' share of the operating transfer would have been \$32,925, or just over 3%.

Recommendation:

The Director of Financial and Management Resources should ensure that detailed results of periodic budget monitoring are publicized widely and that BARs include detail on significant deviations.

Management's Response:

Partially Concur. Management states in their response that the current process achieves the recommendation. Management noted that the FY 2010 1st Quarter BAR is available on the City's website.

Implementation Status:

Fully Implemented. The City Auditor's Office noted that quarterly BAR reports are now published on the City's website.

Recommendation:

The City Manager should require that OMB prepare a vacancy savings report, by department, on at least a monthly basis. OMB should present the report to the Mayor and City Council on a routine basis and/or as requested.

Management's Response:

Concur. Financial and Management Resources provides a vacancy report to the City Council. It will be augmented to add a list of savings for each vacant position.

Target Date: June 2010
Responsibility: Mike Finley, Assistant Director FMR

Implementation Status:

Fully Implemented. OMB management provided the City Auditor's Office with an example of the vacancy report submitted to City Council. The report now includes a column for the amount of salary savings per pay period.