



COUNCIL INFORMATION

Office of the City Auditor

October 30, 2001

To: Honorable Mayor and  
Members of the City Council

From: Ann-Marie Hogan, City Auditor

Subject: DEPARTMENTAL BUDGET MONITORING AUDIT (FOLLOW-UP REVIEW)

STATUS:

On November 23, 1999, the City Auditor's Office presented our Departmental Budget Monitoring Audit Report to City Council. As part of the fiscal year 2001 audit plan, a follow-up review for this audit was performed to determine if:

1. Prior year audit recommendations 1.1 and 4.1 had been implemented.
2. The concern addressed in prior year finding 6 had been corrected.

Audit recommendation 1.1 stated that department directors should provide the Budget Office with budgeted versus projected year-end revenue and expenditure information quarterly. It further stated that the departments should explain the reason for significant variances between budgeted and projected revenues and expenditures. Our follow-up review found that this recommendation had not been implemented. The Budget Office representative stated that he had partially implemented this recommendation. Subsequent to our follow-up review, steps were taken to fully implement this recommendation.

Recommendation 4.1 stated that written policies and procedures for preparing adjusting journal entries should be revised to specify timeliness guidelines for recording these entries in FUNDS. The review found that this recommendation had not been implemented by the Finance Department. Finance representatives stated that this recommendation had been partially implemented. This recommendation was fully implemented as of September 10, 2001, soon after the follow-up review concluded.

Audit finding 6 found that the Budget Office too frequently did not timely update the budget modifications submitted by the departments. Our current review found that Public Works representatives still felt this was a concern. The Budget Office agreed to find out from the departments if this prior year finding was still a concern, and if it was, to implement prior year audit recommendation 6.1.

FINANCIAL IMPLICATIONS:

None.

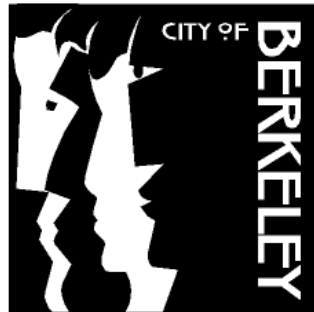
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Approved by:

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Ann-Marie Hogan, City Auditor  
Office of the City Auditor

# City of Berkeley



## Departmental Budget Monitoring Audit (Follow-up Review)

Presented to City Council on October 30, 2001

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**I. PURPOSE AND OBJECTIVE OF THE REVIEW**

A follow-up review was performed to determine if:

1. Recommendations 1.1 and 4.1 from the Departmental Budget Monitoring Audit have been implemented.
2. The Budget Office is updating budget modifications in FUNDS\$ timely enough to meet departmental needs, a concern addressed in Finding 6 in the Departmental Budget Monitoring Audit.

The Departmental Budget Monitoring Audit was presented to City Council on November 23, 1999. Our current follow-up review was performed as part of the Auditor’s Office fiscal year 2001 audit plan.

**II. 1999 RECOMMENDATIONS AND FINDING REVIEWED**

Finding 1: Need for Better Defined Departmental Accountability for Budgetary Performance

This finding stated, in part, “City departments do not periodically report projected year-end revenues and expenses in comparison with budget allocations to the Budget Office or the City Manager. The Budget Office relies on information in FUNDS\$ for citywide monitoring purposes. As a result, department directors are not held sufficiently accountable for their department’s budgetary performance throughout the year.”

Recommendation 1.1

It was recommended that department directors provide the Budget Office with sufficiently detailed budgeted versus projected year-end revenue and expense information quarterly. It was further recommended that significant variances between budgeted and projected revenues and expenses be explained, and that corrective action taken or planned be identified. This recommendation was assigned to the Budget Office and the City Manager for implementation.

Finding 4: Adjusting Journal Entries – Timeliness Concerns

This finding stated, in part, that two departments made 91 percent of their adjustments for fiscal year 1998 during the twelfth month, or after the year had ended. A third department made 67 percent of their adjustments during the same period. Total dollars adjusted for two departments during fiscal year 1998 totaled \$1,995,597 and \$1,519,064.

Recommendation 4.1

It was recommended that the written policy and procedure for preparing adjusting journal entries be revised to specify timeliness guidelines for recording these entries in FUND\$. This recommendation was assigned to the Budget Office and the Finance Department for implementation.

Finding 6: Need to Establish and Adhere to Timeliness Standards for Budget Office Updating of Budget Modifications

This finding reported that the Budget Office too frequently was not timely updating budget modifications in FUND\$ that were submitted by City departments.

Recommendation 6.1

It was recommended that the Budget Office track the time it is taking to update budget modifications and report performance to management. It further recommended that budget modifications be updated within 2 days, and that clerical staff be used to update low risk budget modifications. This recommendation was assigned to the Budget Office for implementation.

**III. SCOPE AND METHODOLOGY**

The scope of this review was limited to recommendations 1.1 and 4.1, and finding 6, in the 1999 Departmental Budget Monitoring Audit.

Questionnaires were sent to department directors to gather information to determine if these recommendations had been implemented, and if the concern in finding 6 still appeared to exist. Questionnaires were sent to department directors responsible for implementing the recommendations, or resolving the concern addressed in finding 6. They were also sent to some of the larger departments that would be affected by the corrective action, or lack of corrective action. Their responses would help support whether or not recommendations, or alternate corrective action, had been implemented successfully. Questionnaires were sent to Finance, Budget, Public Works, Police, Fire, and Health and Human Services departments.

Follow-up work concluded on July 23, 2001. Follow-up was performed in accordance with Generally Accepted Government Auditing Standards.

#### **IV. BACKGROUND**

The 1999 Departmental Budget Monitoring Audit contains fifteen recommendations. On November 14, 2000 the City Manager presented the City Council with a report titled “Final Report on Implementation of City Auditor’s Departmental Budget Monitoring Audit Recommendations.” This was the last audit recommendation implementation status report provided to City Council for this audit. It reported that most audit recommendations had been implemented, or were in the process of being implemented. When implementation of an audit recommendation had not yet begun, a target date for its implementation was provided. Documentation supporting the implementation of several of the audit recommendations was also included with this report. This report indicated that recommendation 1.1 was in the process of being implemented at the time the status report was issued, recommendation 4.1 was targeted to be implemented by June 30, 2001, and an alternative recommendation 6.1 (not the recommendation suggested by the auditor) had been implemented in 1999.

Even though the Budget Office had responded that they agreed with recommendation 6.1 during our original 1999 audit, their narrative response also stated they had implemented a significantly different alternative corrective action to correct finding 6. Consistent with our policy of accepting alternative corrective action, as long as it corrects the problem in the finding, our review looked to see if the problem in finding 6 appeared to have been corrected. That is, we looked to see if the Budget Office was now updating budget modifications timely enough to meet the needs of the departments, and not if recommendation 6.1 had been implemented.

The recommendations and finding selected for follow-up work were selected because the auditors felt that they were among the most important in our audit report, and we had some concerns that they had not been implemented.

#### **V. FINDING, RECOMMENDATIONS AND CONCERN RESULTING FROM FOLLOW-UP REVIEW**

##### **Finding 1: Recommendation 1.1 and 4.1 Have Not Been Implemented**

The Budget Office and the City Manager have not implemented recommendation 1.1, from the Departmental Budget Monitoring Audit, as they agreed to do over a year ago. Recommendation 1.1 recommends that department directors provide the Budget Office with budgeted versus projected year-

end revenue and expense information quarterly. It further recommends that the reason for significant variances between budgeted and projected revenues and expenses be explained by the departments, and that corrective action planned / taken to correct these variances also be provided to the Budget Office.

The Finance department has not implemented recommendation 4.1 as they agreed to do more than a year ago. Recommendation 4.1 recommends that the written policy and procedure for preparing adjusting journal entries be revised to specify timeliness guidelines for recording these entries in FUNDS\$.

Response From City Manager's Office

*Partially agree.*

Response From Finance

*Partially agree. Soon after the original audit concluded, a new payroll adjustment procedure was implemented. The new procedure has resulted in payroll adjustments being prepared significantly more timely.*

Recommendation for the Budget Office and the City Manager

1. Implement recommendation 1.1 from the Departmental Budget Monitoring Audit within one month of this report being presented to City Council.

Response from City Manager's Office

*Agree. A commitment to fully implement the recommendation will begin right away, which is September 7, 2001. Soon after, the City Manager will provide a written statement that this recommendation has been fully implemented.*

Recommendation for Finance

2. Implement recommendation 4.1 from the Departmental Budget Monitoring Audit, and provide these written procedures to all the City departments, within one month of this report being presented to City Council.

Response from Finance

*Recommendation was fully implemented as of September 10, 2001.*



**Audit Concern:           Appears Some Dissatisfaction With The Timeliness of Budget Modification Updates Still Exists**

Finding 6, in the Departmental Budget Monitoring Audit, reported that the Budget Office too frequently did not timely update the budget modifications in FUNDS\$ when they were submitted by the departments. As part of our current follow-up review, the auditor asked representatives from four large departments if they felt this was a current problem. Public Works representatives responded it was. Such a response from a large department, coupled with the Budget Manager’s decision not to implement our recommendation 6.1, raises a concern for the auditor that our earlier finding still may exist. That is, the Budget Office may still too often not be updating budget modifications timely enough to meet the needs of at least some departments.

Response from the Budget Office

*We take no exception to the audit concern.*

Recommendation For Budget Office

We recommend that the Budget Manager find out from the departments if the Budget Office is too often taking too long to update their budget modifications in FUNDS\$. If there is a significant level of dissatisfaction in this area, we again recommend that recommendation 6.1 from the Departmental Budget Monitoring Audit be implemented.

Response from the Budget Office

*Agree.*

<b>VI. CONCLUSION</b>
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Even though the Departmental Budget Monitoring Audit was issued 1.5 years ago, the City still has not implemented some of its recommendations. Consequently, it has not benefited from the audit as much as it should have. The value of an audit report comes primarily from the implementation of its audit recommendations, or alternative corrective action, and not from the identification and reporting of audit findings.

Departmental Budget Monitoring Audit (Follow-up Review)

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