



CONSENT CALENDAR

Office of the City Auditor

November 23, 1999

TO: Honorable Mayor and
Members of the City Council

FROM: Ann-Marie Hogan, City Auditor

Subject: DEPARTMENTAL BUDGET MONITORING AUDIT REPORT
TRANSMITTAL

RECOMMENDATIONS:

That Council request the City Manager to:

1. Report back to Council regarding progress made in implementing the recommendations in the attached report to Council by March 31, 2000.
2. Clear the findings in the report by June 30, 2000 by completing implementation of these recommendations or by submitting a program of alternative solutions, and
3. Report to Council by September 14, 2000 regarding results.

BACKGROUND:

In the course of recent audit work in city departments we noted that initiating departments did not accurately record many expenditure transactions. We have become concerned about the quality of budgetary monitoring as a result of these observations. This audit assessed the quality of budget monitoring in six City departments. We found a number of areas where change is needed to improve departmental accountability for public resources.

The following is a list of our findings in brief:

1. Department directors do not report to the City Manager quarterly on projected year-end revenues and expenses compared with budget allocations. The Budget Office uses the City's accounting information to monitor and report on results throughout the year. Overall control would be improved if department managers reported on budget variances and plans for corrective action each quarter.
2. The City has not formally established the minimum skill requirements for budget monitors. Guidelines for the tasks typically performed by a budget monitor, how to perform these tasks, and when to perform them, are not available.
3. During the first 10 months of fiscal year 1999, expenditure information was often not up to date in the City's financial information system, "FUNDS\$". When transaction data is not timely, it is difficult for departments to monitor their budgets.

4. Expense data in FUND\$ has not been accurate until well after year end for the last two fiscal years. As a result, monitoring of year-to-date revenues and expenses relative to budget in FUND\$ is more difficult because year-to-date information contains significant timing and classification errors.
5. Contrary to sound control practice, operating departments submitted, and the Finance Department accepted, adjusting journal entries that were prepared, reviewed, and approved by the same employee within the originating department. These adjustments were often submitted to Finance without support documents required by written procedures.
6. The Budget Office frequently was not timely updating budget modifications submitted by departments in FUND\$. Delay in updating budget modifications can make it more difficult for departments to use FUND\$ to monitor their budgets.

The auditors recommend issuance of formal guidelines, more departmental involvement in budget monitoring and reporting, establishment of skills criteria and training for budget staff in the departments, and improvements to the timeliness and reliability of FUND\$ financial data. Significant progress in these areas should be achievable during the current fiscal year. This should help lay the groundwork for the move to performance-based budgeting

Most changes recommended require the continuing involvement of the Budget Manager. Additionally, Finance, Information Systems, and Payroll Audit will have significant part in the successful implementation of our recommendations, as will some managers in operating departments

Issues raised in the audit regarding reported shortcomings in the City's accounting software, and the skills and resources needed to address them, can be more usefully addressed in the City Manager's follow up report. If it is determined that major changes to the City's accounting software and budget monitoring systems are required, this may require a substantial allocation of resources.

FINANCIAL IMPLICATIONS:

We believe that overall accountability for public resources managed by City departments and timely and accurate reporting of results will improve as recommendations are implemented.

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Approved by:

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