



MDC Budget Preparation and Monitoring

Internal Audit

November 2015

REDW^{LLC}

CPAs | Business & Financial Advisors

Bernalillo County Internal Audit MDC Budget Preparation and Monitoring

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit over budget preparation and monitoring at Bernalillo County Metropolitan Detention Center (MDC). Our internal audit focused on testing various policies and procedures and internal controls, including: budget approval, budget preparation, budget adjustment, reclassifying journal entries, Line Item Transfers, budget reporting, and the overall budgeting process.

We performed the following procedures:

- Tested whether the 2015 budget was properly approved.
- Tested whether a sample of reclassifying journal entries was properly approved and supported.
- Tested whether a sample of Budget Adjustment Requests (BARs) was properly approved and supported.
- Tested whether a sample of Line Item Transfers (LITs) was properly approved and supported.
- Determined whether Quarterly Budget reports prepared by MDC management included accurate budget and actual data.
- Evaluated the overall budget creation and monitoring process based on our understanding obtained through inquiry of key members of MDC management and procedures performed in other areas.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We found areas during the course of the audit where controls were functioning properly and established procedures were followed. We determined that the 2015 MDC budget was properly approved, that selected BARs were properly approved and supported and that actual and budget amounts included in quarterly budget reports submitted for review by the County Manager agreed to amounts according to the Budget Office.

Significant high and moderate risk observations are presented below:

- **Overall Budget Process** – The budget should be created with significant input from the members of management responsible for operational decisions that incur costs or encumber resources and those individuals should be properly trained, should have access to tools that allow them to monitor budget performance and should be held accountable for that performance. Based on inquiries of four Captains and one Assistant Chief (AC), there is not a consistent understanding of how the budget is created, approved or monitored nor is there adequate communication regarding the final approved budget or each cost center's performance relative to the established budget.
- **Journal Entries Approval and Support** – All journal entries should be approved by the appropriate level of management in the SAP workflow system; however, three of 22 entries tested had no evidence of approval in the SAP system. We were able to obtain email evidence that the three entries were approved.

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Further detail of our purpose, objectives, scope, procedures, observations, and recommendations are included in the internal audit report. In that report, management describes the corrective action taken for each observation.

We received excellent cooperation and assistance from MDC, Accounting and the Budget Department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
January 28, 2016

Bernalillo County Internal Audit MDC Budget Preparation and Monitoring

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Bernalillo County Internal Audit MDC Budget Preparation and Monitoring Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating the internal controls over selected processes relating to MDC Budget preparation and monitoring functions. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified.

An entrance conference was held on November 30, 2015, and fieldwork began the week of November 30, 2015. An exit conference was held on January 6, 2016, and final management responses were received on January 28, 2016.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

Our internal audit focused on evaluating whether processes were in place to monitor compliance with County Budget requirements and to determine if those processes were in compliance with policies and procedures (P&P) and applicable regulations, and reflected best practices and sound internal controls. We assessed the controls over reclassifying journal entries, budget approval, Line Item Transfers (LIT's), Budget Adjustment Requests (BAR's) and quarterly reporting of actual financial performance compared to budget. We also evaluated the overall process for budget creation, communication and monitoring.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations surrounding MDC budget preparation and monitoring, we interviewed the following personnel:

- Virginia Chavez, Assistant Chief of Operations
- Johnny Trujillo, Maintenance Coordinator
- Jonathon Thomas, Captain
- Erin Riley, Training Coordinator
- Michael Martindale, Civil Litigation Administrator
- Matt Rivera, Assistant Chief
- Stephanie Sanchez, Budget Liaison

In order to understand policies and procedures over the MDC budget preparation and monitoring processes we read relevant portions of:

- The Bernalillo County Metropolitan Detention Center Policy and Procedures; and,
- The Bernalillo County Administrative Instruction for Budget Process dated May 2011.

We performed the following testwork:

Budget Approval: We obtained a copy of the final budget for Fiscal Year (FY) 2015 and tested whether it was properly approved by the County Commission.

Budget Adjustment Requests: We obtained a listing of budget adjustment requests (BARS) related to FY 2015 and judgmentally selected two BARS (out of 16 total) and for each, we tested to determine if:

- BARS were properly supported and approved.
- Costs relating to selected BARS were tracked separately using an Internal Order, if applicable.

Journal Entries: We obtained the listing of reclassifying journal entries for FY 2015 and selected a sample of 22 journal entries out of 110 total (20% of population). We then tested for the following:

- Journal entries were approved by the appropriate level of management.
- Journal entries were properly supported and appeared to be reasonable based on the supporting documents in the system.
- Journal entries were recorded in the correct GL account and budget line item.

Line Item Transfers (LIT): We obtained a listing of all fund centers with requested LITs for FY 2015, and we selected a sample of 16 out of 51 total (30% of population). We tested for the following:

- LIT's were approved by the budget office.

- LIT's were approved by the Assistant Chief of Operations (ACO) or Chief Financial Administrator (CFA).
- Supporting documentation was sufficient to explain the purpose of the transfer and the amount(s) involved.

Budget Reporting: We obtained two quarterly budget reporting packets for FY 2015. We tested to ensure that the budget and actual amounts in the quarterly budget reports agreed to the original data provided by the budget office.

Overall Budgeting Process: We obtained a listing of individuals responsible to participate in the development and administration of MDC's annual budget and in the forecasting of funds needed for staffing and operations. We selected a sample of four Captains and one Assistant Chief (five total) and made inquiries to obtain an understanding of the following:

- The individual's involvement in the budgeting process.
- How budgetary needs are prioritized.
- Their understanding of budget performance and tools available to help monitor the budget to actual process.
- How individuals are held accountable for budget performance.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County's budget preparation and monitoring processes:

1) Overall Budget Process

The budget should be created with significant input from the members of management responsible for operational decisions that incur costs or encumber resources and those individuals should be properly trained, should have access to tools that allow them to monitor budget performance and should be held accountable for that performance. Based on inquiries of four Captains and one Assistant Chief (AC), there is not a consistent understanding of how the budget is created, approved or monitored nor is there adequate communication regarding the final approved budget or each cost center's performance relative to the established budget. The job description for Captains require that they participate in the development and administration of MDC's annual budget and in the forecasting of funds needed for staffing and operations; however, based on our interviews, there appears to be minimal if any training on creating or managing budgets. Based on interview responses it also appears that detailed budget to actual reporting is not provided to Captains and ACs, periodic meetings involving Captains and ACs to discuss budget performance are not held and their input on budget performance is not solicited as part of the quarterly reporting process.

Potential Risk: High—If the right members of MDC management are not properly trained and engaged during the budget creation process the budget may not reflect the true needs of MDC and managers cannot be held accountable for budget to actual performance.

Recommendation: Conduct trainings for the Captains and ACs on creating a budget and how their decisions affect the budget. To increase Captain and AC engagement in the budget creation process, a) communicate overall division goals and require cost center budgets to include goals that support or align with division goals, and b) conduct scheduled meetings whereby managers advise Finance on their needs for the upcoming year. This process should include removing one time or unusual costs to create a reasonable starting point or base budget and then adjusting for current year increases or decrease. Documentation or notes of the meetings including records to support increases to the budget over prior year actuals should be maintained.

Formally communicate the final approved budget and provide feedback on the rationale for how decisions were made regarding what costs were approved, cut, increased, etc. to Captains and ACs and ensure that they understand their final budget amounts and their top priorities.

Ensure that periodic budget to actual performance reports are provided or made available to Captains and ACs for their respective areas (may necessitate training), conduct periodic (i.e. monthly or quarterly) meetings between Finance and Captains/ACs to discuss budget performance and actual or anticipated overages and to create a plan to manage costs going forward (reduction in spending, LITs, etc.). One of these meetings each quarter could be used to engage the managers in the quarterly reporting process and feedback from managers could be incorporated into the quarterly reporting submitted to the budget office and presented to the County Manager.

Management's Response

The Assistant Chiefs and Captains will be given an overview of the budget on a quarterly basis by the Chief Financial Administrator. The Assistant Chiefs will be included in the Quarterly Budget Reviews presented to the Deputy County Manager of Public Safety. The Assistant Chiefs will be invited to Budget Kickoff Meetings, Closeout Meetings and any other meeting scheduled regarding the budget process. Attending the budget meetings and providing a quarterly overview of the budget will assist in covering all aspects of the budget process, give the Assistant Chiefs and the Captains knowledge and an opportunity for input into the budget process. This process will also assist in improving the effectiveness of developing and administering the budget, achieving goals and tracking performance measures while providing the tools to develop more compelling analysis and support sound decision making. The Budget Office will also assist in providing budget training requested by MDC. This process will begin the 3rd quarter of FY 2016.

2) Journal Entries Approval and Support

Journal entries must be approved within the SAP System by either the Assistant Chief of Operations (ACO) or the Chief Financial Administrator (CFA) and the Accounting Department. We identified that three of 22 journal entries did not have evidence of approval in the SAP System; however, we were able to obtain email evidence that these were approved.

Potential Risk: Moderate—This appeared to be a systemic issue and there is a risk that other entries could be impacted. The journal entry workflow is designed to maintain all necessary support within the SAP system. Because these approvals were not captured within the system the only evidence to rely on was email correspondence which could be deleted or lost.

Recommendation: The County should engage with the SAP vendor to research whether the workflow in the accounting system is properly set up to document the reviewer/approver and ensure the underlying issue is resolved and impacted entries corrected.

Management's Response

The SAP system did not display the approval workflow line that would normally appear on the workflow screen for the journals identified in the observation. We reviewed the workflow process with the county's ERP technical team. We were able to confirm that a workflow was captured by the system as evidenced from the workflow e-mails generated by the system. Approvals were correctly recorded during the workflow process. The ERP technical team acknowledges that a system anomaly occurred and is conducting further research along with their system consult and developer resources to determine the cause.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the Board of Commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

We discussed and resolved other minor observations with management and received excellent cooperation and assistance from MDC, Accounting and the Budget Department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
January 28, 2016