



Internal Audit

Budget Office - Budget Process

December 2011

Bernalillo County Internal Audit Budget Office - Budget Process

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit of the Bernalillo County Budget Office and budget planning procedures. Our internal audit focused on evaluating and testing compliance with New Mexico State Statutes and New Mexico Department of Finance and Administration (DFA) requirements within the Budget Office including budget monitoring, budget adjustments, and departmental budgeting processes including salaries and overtime expenses.

We performed a variety of procedures, including:

- Obtaining an understanding of various Budget Office operational policies and procedures through reading relevant portions of Administrative Instructions (AI) No. 44 “Budgetary Controls” and No. 45 “Budget Preparation” as well as various sections of the County Budget Book;
- Testing selected departments for: Line Item Transfers (LIT), Financial Resolutions (FR) and Administrative Financial Resolutions (AFR), quarterly departmental reports, and DFA quarterly reports.
- Assessing the FY 2011 salaries and wages expense by analyzing the year-end transfers from the salaries contingency account for selected departments.

We received excellent cooperation and assistance from the Budget Office and the various departments during the course of our interviews and testing. We very much appreciate the courtesy extended to our personnel.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

In many areas during the course of the audit we found controls were functioning properly and procedures were being followed. We found that FR’s and AFR’s involving budget adjustments required to be reported to DFA were done accurately and timely. We also found that the Bernalillo County Biennial Budget Book for FY 2011 - 2012 was well organized and had incorporated many of the policies that are considered to be best practice according to the Government Finance Officers Association (GFOA) Best Practices in Public Budgeting.

A summary of observations are presented below:

- **Budget Monitoring**—The County uses cost center accounting to track various cost activities within a given department. There were four departments that required changes to the budget check level, which were at the overall department level, but these budgets should have instead budget checked at the cost center level or grouping of similar cost centers. Budget checking at the department level allows for all cost center budgets within a department to be managed together, and, as such, overruns in one cost center automatically consume budget from the other cost center without deliberate management action/approval. The County should require all departments to budget check at the cost center or grouping of similar cost centers level.
- **Line Item Transfer Supporting Documentation**—The Budget Office did not consistently retain proper documentation or support for LIT's. The Budget Office should require supporting documentation for every LIT prior to approval and should retain all supporting documentation electronically within SAP.
- **Quarterly Departmental Reports**—Required departmental quarterly reports were not consistently submitted to the Budget Office. Additionally, there was not a tracking process in place to determine if reports were received within 15-days after quarter end. The County should create a formal quarterly departmental reporting policy that requires all County departments to prepare and submit a complete, timely, and accurate quarterly budget analysis package to the Budget Office.

The lower risk observations are included in the attached detailed report.

REDW LLC

Albuquerque, New Mexico
February 24, 2012

Bernalillo County Internal Audit Budget Office - Budget Process

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Bernalillo County Internal Audit Budget Office - Budget Process Report

INTRODUCTION

We performed the internal audit services described below solely to assist the Bernalillo County Budget Office in evaluating the budget process to determine if it is in compliance with New Mexico State Statutes and County policies. 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 28, 2011, at which time most items needed for the audit were requested. Fieldwork began the week of December 5, 2011. An exit conference was held on February 13, 2012, and final management responses were received by February 24, 2012.

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 and testing compliance with State Statutes and New Mexico Department of Finance and Administration (DFA) requirements within the Budget Office including budget monitoring, budget adjustments, and departmental budgeting processes including salaries and overtime expenses.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations of the Budget Office and budget planning we interviewed the following personnel:

- Maria Zuniga, Interim Budget Director
- Jennifer Gallegos, Financial Service Administrator IV (Budget Office)
- Andrew Galvan, Operations Manager (Sheriff's Office)

- Elva Gonzales, Budget Liaison (Sheriff's Office)
- Ann Gonzales, Budget Liaison (Economic Development)
- Tony Pedroncelli, Chief Administrative Officer (Assessor's Office)
- Randy Baca, Budget Liaison (Fleet and Facility Management)

In order to understand Budget Office practices and the departmental budget planning process we:

- Read Bernalillo County 2011-2012 Budget Book Overview and various sections of the Budget Book including:
 - ♦ Public Safety Division
 - ♦ Finance Division
 - ♦ Public Works Division
 - ♦ Administrative Services Division;
- Read various sections of the 2010 Bernalillo County CAFR;
- Read various sections of Chapter 6 Article 6 of the New Mexico State Statutes;
- Read Administrative Instructions (AI) No. 44 "Budgetary Controls" and No. 45 "Budgetary Preparation"; and,
- Read the "Department Quarterly Report Submissions" instructions from the Budget Office.

We performed the following testwork:

- *Budget Modifications:* We selected a sample of 10 fiscal year 2011 Financial and Administrative Financial Resolutions and tested each was properly approved and supported. When required, we tested that the resolution was reported to DFA on the monthly Schedule of Budget Adjustments within the required timeframe.
- *Departmental Budget Process:* We selected the Fleet and Facility, Sheriff's, Assessor's, and Economic Development for departmental budget process testwork. For each of the departments we:
 - ♦ Gained an understanding of how the department develops budget projections. We assessed projections to determine if methods employed appeared reasonable and were developed in accordance with County instructions.
 - ♦ Selected a statistical sample (based on 90% CL, 10% TD) of 19 line item transfers (LIT). For each LIT selected we tested that appropriate approvals were obtained and that each transfer had supporting calculation spreadsheets and/or other source documentation on file.
 - ♦ Tested if the following required quarterly financial reports were submitted to the Budget Office:
 - Quarterly Revenue Graphs;
 - Quarterly Appropriations and Expenditures Report with explanations on variances;
 - Quarterly Goals;
 - Performance Measures Report;
 - Position Count by Cost Center; and,

- Issues and Follow-up Report;
- ♦ Selected a sample of 20 purchases processed during the fourth quarter of FY 2011 and tested for wasteful or unnecessary spending. For each purchase, we tested that it appeared reasonable for departmental use, quantities were not excessive, and the purchase was made within the ordinary course of business. If the item purchased was a fixed assets or a piece of equipment, we traced the item to the location within the County.
- *Financial Reporting:* We obtained all FY 2011 quarterly reports submitted to DFA and tested if they were submitted timely and agreed to source financial data.
- *Salaries and Wages:* For each of the four departments selected as part of the departmental budget testwork above, we assessed the FY 2011 salaries and wages expense by analyzing the year-end transfers from the salaries contingency account. For the departments that received a large or unusual transfer from the salaries contingency account, we investigated the nature and reasonableness of the transfer given staffing levels.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Bernalillo County Budget Office processes.

1) *Budget Monitoring*

There were four departments where system budget checking controls should have been established at the cost center level or similar grouping but were instead established at the overall department level. As a result, budget overruns in one cost center were automatically covered by another cost center without any prior approval or line item transfer.

Recommendation

The County has established that budgeting, budget checking, and monitoring should be performed at the cost center level or similar grouping for most departments. Departments should not have the ability to overrun the budget at one cost center and have the overrun automatically covered by another unrelated cost center.

In the event that a cost center does have an overrun, a line item transfer should be completed through the system workflow. This will help to ensure that the overrun is appropriately acknowledged by department management and that the transfer of available budget from one cost center to another has been approved by the Budget Office.

Overall, budget checking at the cost center level or grouping of similar cost centers will help to ensure that budget overruns are appropriately addressed which will help increase the department's accountability for each cost center.

Management Response

The Budget Department has conducted a full review of all departments' budget check levels and agrees that four departments' budget check levels should be adjusted to avoid inadvertent cost overruns.

Budget check levels should normally be established in accordance with managerial levels of responsibility. As such, a small department with multiple related cost centers could have all of those cost centers set to budget check together so long as the budget categories are related (e.g. operational) and there is one manager responsible for cost centers. Large departments with multiple cost centers, such as MDC or Parks & Rec, are most optimally budget checking at groups of related cost centers. Large budgets for specific countywide purposes, e.g. insurance or fuel expenses, should always budget check separately to ensure operational budgets are not allowed to have overruns.

The Budget Department is committed to continually monitoring the budget check levels for all departments and will change the budget check levels for the four departments identified as part of this audit. Further, all departments are required to submit budget to actual reports to the Budget Department quarterly, which should also indicate if there are any cost overruns that need to be addressed and the Budget Department will monitor those to further ensure budgetary compliance.

2) Line Item Transfer Supporting Documentation

Administrative Instruction No. 44 states that LIT's must include adequate documentation or support. The Budget Office did not consistently retain source documentation for LIT's. We found two out of 19 LIT's tested did not have documentation to support the transfer.

Recommendation

The Budget Office should require supporting documentation for every LIT prior to approval. SAP has the capability to store and organize supporting documents in a central location for future reference. The Budget Office should retain all supporting documentation electronically within SAP.

Management Response

The Budget Department agrees with this recommendation and will outreach to departments that are not attaching adequate documentation to LITs and educate them as to what is needed as far as more adequate justification, attaching worksheets with calculations, and the like. All LITs workflow to the Budget Office for final approval, so this will be monitored and controlled by the Budget Office to ensure that adequate justification is always attached or inserted into long text.

3) Quarterly Departmental Reports

The required departmental quarterly reports were not consistently submitted to the Budget Office. We tested eight quarterly departmental reporting packets for FY 2011 for Sheriff's, Fleet and Facility Management, Economic Development, and Assessor's and found the following reports were not submitted:

- Eight Quarterly Budget to Actual Analyses;
- Seven Revenue Graphs;
- Seven Performance Measures Reports;
- Six Position Count Updates; and
- Two Quarterly Goal Update Reports.

Additionally, there was not a tracking process in place to record when reports were received by the Budget Office. As a result we were unable to determine if the reports were submitted within 15 days after quarter end.

Recommendation

The County should create a quarterly departmental reporting policy that requires all County departments to prepare a complete, timely, and accurate quarterly budget analysis. The policy should require that quarterly reports be submitted to the Budget Office in a manner that will allow the Budget Office to conduct a thorough review. The policy should also outline what exactly should be included in the quarterly reporting packet and require that only a complete reporting packet be submitted. A comprehensive quarterly departmental reporting policy will help to ensure departments are thoroughly monitoring their budgets and that Directors and department personnel are fully aware of the impact that various department activities have on their departmental budget.

Management Response

The Budget Department agrees with this recommendation and will take steps towards creating a quarterly budget policy that formalizes the requirements for quarterly reporting. These requirements are currently communicated to departments in the form of email each quarter. Detailed instructions and quarterly reporting forms are available for departments on the Budget Office intranet page. Further, a more formal tracking process will be implemented by the Budget Office to ensure that departments are complying with the quarterly reporting policy.

4) *Contingency Planning Policy*

The County has established contingency accounts within the general fund to cover emergency expenditures, revenue shortfalls, and unforeseen events. It is best practices for a government to have a policy that guides the financial actions to be taken in the event of emergencies, natural disasters, or other unforeseen events. Because the County does not have a policy on Contingency Planning, there are no procedures in place that govern the use of the contingency funds.

For fiscal year 2011 there was a net salary deficiency of \$1.4 million that had to be covered by the general fund salary contingency account. Pay rate increases and projects involving special pay were contributing factors to the use of the salary contingency fund.

Recommendation

There are times when emergencies or unexpected events occur and it is important to have a contingency policy in place to serve as a starting point for financial decisions and actions related to unforeseen circumstances. The County should create a comprehensive Contingency Planning Policy. The policy should include the circumstances in which a transfer may be necessary and which contingency fund should be used in each circumstance. The policies should also describe the approvals needed to authorize a contingency transaction and what forms and fiscal analyses should be performed.

Thorough contingency planning and financial policies will enable the County to be more proactive and assist the County in taking timely action when emergency situations do arise. Additionally, it will assist in establishing consistency and help ensure that all appropriate documentation and approvals have been obtained prior to the use of contingency funds.

Management Response

The Budget Department agrees with this recommendation and is taking steps to draft a Contingency Planning Policy. The policy will address the circumstances when contingency funding should be utilized, the approval process and the fiscal analysis necessary. A contingency request form will be created and will be required for departments that are requesting contingency funding.

It should be noted that there is an approval process in place for the utilization of contingency funds, which requires Deputy County Manager or County Manager approvals. Further, all contingency budgets are approved by the Commission as part of the budgeting process and contingency status reports are provided to management and the Commission on a quarterly basis by the Budget Office. As such, the County is committed to transparency in the utilization of contingency funding and will strive towards a more structured contingency approval process.

* * * * *

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 received excellent cooperation and assistance from the Budget Office and the various departments during the course of our interviews and testing. We very much appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
February 24, 2012