

Departmental Budget Monitoring Audit

DEPARTMENTAL BUDGET MONITORING AUDIT TABLE OF CONTENTS

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I. PURPOSE AND OBJECTIVE OF THE AUDIT

The financial operations of the City of Berkeley are controlled by the Annual Appropriations Ordinance of the City Council. The City Manager is responsible for assuring that departments operate within the limits set by the ordinance, which sets appropriations by fund. In the course of recent audit work, we have noted that many expenditure transactions have not been properly recorded by the initiating departments. We have become concerned about the quality of budgetary control and monitoring in City departments as a result of these observations. Accordingly, after discussing City needs with the City Manager, we included a review of departmental budget monitoring in our work plan for fiscal 2000. The objective of this audit was to determine whether expenditures were being monitored against departmental budget authorizations, using proper methods and procedures.

For the purposes of this audit, budget monitoring is the process of:

1. Reviewing actual revenues and expenses for correct and timely posting, and timely correction of errors.
2. Comparing budgeted revenues and expenses with year-to-date actual and projected year-end revenues and expenses, and analyzing areas of concern. Potential budget variances and the causes are reported to management for corrective action.

We did not address departmental management compliance with the annual Appropriations Ordinance. Compliance is a legal requirement of the ordinance. Additionally, the overall financial condition of the City and the fairness of financial statement presentation is reviewed and attested to by the City's outside CPA firm annually. To place our audit scope and results in context, it should be remembered that the City annually receives the Government Financial Officers Association Certificate of Achievement for Excellence in Financial Reporting and Distinguished Budget Presentation; and that the City holds an Aaa bond rating, the highest possible, according to Moody's 1999 municipal bond report. For these reasons, and to make optimum use of audit resources, we narrowed the scope of this review to an assessment of budget monitoring in City departments.

II. SCOPE AND METHODOLOGY

Audit work was performed in accordance with Government Auditing Standards as prescribed by the Comptroller General of the United States, except for a potential impairment to our independence which is discussed below. The following steps were taken during the audit process:

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1. We reviewed City policies and procedures, the City Charter, the adopted budget for fiscal year 1998 and 1999, and the [Annual](#) Appropriations Ordinance (AAO) for fiscal year 1999.
2. We obtained and reviewed information from budget monitors, their supervisors, the Office of Budget and Financial Management (Budget Office) manager, and other City staff, using questionnaires and interviews.
3. We reviewed relevant budget and accounting records.

Our independence was potentially impaired because both General Audit and Payroll Audit Divisions report to the City Auditor. The City Auditor and Deputy City Auditor for Payroll Management had direct involvement with a change in the process for correcting labor distribution errors in the City's automated accounting system, FUNDS\$. FUNDS\$ is the City's name for the HTE, Incorporated financial system software used by the City. Finding 4 addresses our concerns about implementation of the new procedure. Care was taken to maintain independence in audit work performed in this area. We do not believe the potential impairment to our independence had a negative impact on the audit.

We examined budget and financial activity during fiscal year 1998 and the first 10 months of fiscal year 1999. Audit test work concluded during May 1999. The audit focused on budget monitoring activity in the following departments:

1. Fire
2. Housing
3. Parks and Waterfront (Parks)
4. Planning
5. Office of Budget and Fiscal Management (Budget Office)

The Health and Human Services (HHS) and the Public Works (PW) departments were also included in some tests because of timeliness of transaction processing concerns, and the volume of budgetary adjustment activities. We did not examine the City's monitoring of community agency budgets or City funding of community agencies during this audit.

We conducted a limited purpose audit. Consequently, we did not evaluate the overall internal control structure of the budget monitoring process in the departments audited. However, during the course of our fieldwork, some internal control problems, which could have a material effect on the City's ability to monitor the budget, came to our attention. These problems are outlined in the executive summary and discussed in detail in the findings section of this report.

III. EXECUTIVE SUMMARY

The City Manager is responsible for ensuring that City spending does not exceed spending limits established in the City's Annual Appropriations Ordinance, which sets expenditures by fund. The City Manager has assigned The Office of Budget and Fiscal Management (Budget Office) responsibility for the day-to-day control of the budget. The Budget Office's ability to perform this function would be improved if departments reported on projected year-end expenses in comparison with budget at least quarterly. (Finding 1) Overall control would also be improved if department managers informed the Budget Office of any unusual or extraordinary resource needs as soon as they occur, and any planned action to address these occurrences.

The City has not established minimum skills requirements for budget monitors, or developed monitoring guidelines or procedures. Currently, employees with many different job titles are budget monitors. We are concerned that some budget monitors may not have the background necessary to perform budget monitoring duties properly. A large number of budget monitors stated that guidelines and training would help them be better monitors. (Finding 2)

Expenditure information in FUND\$ is too often not up to date or accurate, making it more difficult to properly compare actual expenses with departmental appropriations or budget projections. During fiscal year 1999, some bi-weekly payroll expense and some internal service charges were not timely recorded in the general ledger. Five instances were noted when it took from 38 to 50 calendar days to record payroll expenses in the general ledger. During these periods, FUND\$ did not include payroll expense for two or three pay periods totaling from \$9.4 million to \$14.1 million. (Finding 3)

Adjusting journal entries to correct accounting errors were often not timely prepared. This condition materially affects the accuracy of the data in FUND\$ during the year, making it more difficult to effectively monitor the budget. There were a number of instances where labor was charged to the wrong accounts for the entire fiscal year. The responsible departments did not correct the errors until after the fiscal year had ended. In one instance, a group of related labor distribution adjustments totaling \$495,000 was not made until more than five months after the 1998 fiscal year had ended. (Finding 4)

During fiscal year 1999, departments were not able to make labor distribution corrections in FUND\$ for the first nine to ten months of the year while software and procedures were changed. (Finding 4) This was because changes intended to ultimately improve the accuracy of the financial system were in process. This condition also affected the accuracy of the year-to-date payroll data in FUND\$.

The Budget Office was not always timely recording budget modifications in FUND\$. (Finding 6) Also adjusting journal entries were too often recorded in FUND\$ by Finance without evidence that they had

been properly reviewed and approved in the originating department (reviewed by an authorized individual other than the person preparing the adjustment). (Finding 5) Such documented approval is required by the written policies and procedures.

IV. BACKGROUND

The City's adopted fiscal year 1999 budget authorizes expenditures of \$222,845,814. The budget for the departments we included in the audit scope were as follows:

Fire	\$15,194,345
Housing	11,171,159
Parks and Waterfront	9,719,537
Planning	6,825,943
Public Works	65,649,336
Health and Human Services	<u>20,686,115</u>
	\$129,246,435

Departments submit their detailed budget requests to the City Manager annually. The City Manager then develops a balanced budget proposal for submission to the Mayor and City Council. Section 53 of the City Charter requires the City Manager to submit a tentative budget to Council by the first week of May each year. The City Council adopts a budget which starts July 1, the beginning of the City's fiscal year, through the passage of an adopting ordinance (Annual Appropriations Ordinance (AAO)). The ordinance sets expenditure limits at the fund level. A fund is a separate fiscal and accounting entity with separate accounting records. For example, the general fund is used to account for the ordinary operations of the City that are financed from taxes and other general revenue. An example of a special fund is the Sanitary Sewer Fund. This fund is financed through a special assessment, and assessment revenues may be used only for operating and maintaining the sanitary sewer system.

Budget information in comparison with year-to-date expenditure data is available in FUND\$. This information is available at the account level, as well as at the project, unit, division, department and fund level.

The Budget Office is responsible for ensuring that citywide expenditures are within levels authorized by the Annual Appropriations Ordinance. Within the departments, staff with various job titles are also monitoring actual revenue and expenditure activity relative to the budget.

Budget modifications are accounting entries, which transfer budgeted money from one account to another in FUND\$. Specific employees in each department are authorized to enter budget modifications into FUND\$. Once this is done, a copy of the budget modification is printed, initialed by the data entry person, signed by the department-authorized employee, then sent to the Budget Office.

After the budget modification is approved, the modification is updated in FUND\$ by Budget Office staff. Updating causes budgeted money to be moved from one account to another.

Adjusting journal entries are accounting entries, which generally transfer actual revenues and expenses from one account to another in FUND\$. They are also used by the City to post payroll and fringe benefit expenditures, and interdepartmental charges. Specific employees in each department are authorized to enter adjusting journal entries into FUND\$. Once this is done, a copy of the adjusting journal entry is printed, signed by the data entry person and department authorized employee, and sent to Finance. Finance reviews the adjustment and checks support documents for reasonableness. A Finance Department representative approves and signs the adjustment. The adjustment is then posted in the general ledger.

V. FINDINGS AND RECOMMENDATIONS

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

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 FUND\$ for citywide monitoring purposes. As a result, department directors are not held sufficiently accountable for their department’s budgetary performance throughout the year.

The City Manager and Budget Office are responsible for advising the City Council on the financial condition of the City, and controlling spending within the Annual Appropriations Ordinance. However, current reporting mechanisms, primarily FUND\$ reports and discussions with department representatives, too often do not provide accurate financial information timely. Even when the timeliness and accuracy of FUND\$ information is improved (See Finding 3 and 4 for more information), the best revenue and expenditure projection information, for use in monitoring the budget, will always come from the departments. This is because they should be expected to have first hand knowledge of their operations or operating conditions, and would be in the best position to estimate future revenues and expenditures. Providing the Budget Office with accurate and timely year-to-date revenue and expenditure information, as well as well developed year-end revenue and expenditure projections, will allow better monitoring of the City’s compliance with the Annual Appropriation Ordinance. Departments will also be more accountable for their budgetary performance throughout the year.

The Budget Office currently accomplishes budget oversight responsibilities as follows:

- i. The Budget Office uses information in FUNDS\$ to monitor revenues and expenditures by fund and by department relative to budget throughout the year.

Information in the accounting system is too often not current or accounted for properly. (Finding 3 and 4) The Budget Manager stated that information obtained from this process is generally used to initiate budget modifications and budget amendments as needed.

- ii. Finance and the Budget Office prepare a 2nd and 3rd quarter report for the City Council and the City Manager, which compares budgeted revenues and expenses for the general fund with year-to-date and projected year end expenses and revenues. This report is prepared only for the general fund, and does not analyze the status of the City's other operating funds.

Budget Office projections are generally high level and do not take into account significant details known in the departments. Large variances between budgeted and projected year-end revenues and expenses are discussed with responsible department representatives.

- iii. The Budget Office reviews and approves all budget modifications.
- iv. The Budget Manager stated that before departments can create an additional employee position (when funding for the position is not in the departmental budget), the department must identify a viable funding source and get Budget Office - City Manager approval. The Budget Manager was asked to provide supporting documentation for his statement, but none was provided.

The effectiveness of the Budget Office's ability to detect material variances from the budget and help departments correct them, could be significantly improved. For example, departments could periodically provide the Budget Office with detailed budget versus projected actual information, and explain significant variances. Departments should already be developing this information for their own use. Review of this work outside the departments should further encourage departments to stay within their approved budget allocations.

The National Advisory Council on State and Local Budgeting recommends that municipalities require their managers not to exceed their budget, and to identify appropriate rewards and penalties for their budgetary performance. Although budget managers and department directors may be aware that this is a requirement in the City of Berkeley, it has not been formalized. The Advisory Council considers this a simple but important mechanism for detecting and correcting budget variances.

Public Works Response to Finding

The Public Works Department reviews actual versus budgeted revenues and expenditures on a monthly basis. Monthly financial reports are submitted to and reviewed by division management staff. Revenue and expenditure adjustments are prepared and submitted throughout the year. During the budget preparation process, revenue projections are reviewed and revised. The department prepares five year financial plans for its key funds which show fund beginning and ending balances, baseline revenues, projected expenditures by category, fund pressures, and proposed balancing measures. The five year plans are submitted with the department's annual budget request and are reviewed by the Budget Office and the City Manger.

Any proposed adjustments to either the revenue or expenditure authorizations must be approved by either the Budget Office, the City Manager, and the City Council (in the case of amendments to the Appropriations Ordinance.)

Recommendations for the Budget Office and the City Manager

- 1.1. We recommend that department directors provide the Budget Office with sufficiently detailed budgeted versus projected year-end revenue and expense information quarterly. We also recommend that significant variances between budgeted and projected revenues and expenses be explained, including any corrective action taken or planned.

Budget Office Response to Recommendation

Agree. The Budget Office currently prepares quarterly expenditure projections and significant variances are reviewed with appropriate departments, City Manager and City Council. By requesting that departments provide their own forecasts variances may be identified sooner. Quality of those forecasts will depend upon developing sufficient staff technical capacity within the departments. Reconciliation of any variances could result in improved understanding by either the Budget Office or the department(s) regarding underlying expenditure trends. Target Date: 1st Quarter FY 2000.

Public Works Response to Recommendation

Agree. This recommendation should be revised to reflect that if budget-to-actual reports are to be prepared, they be done on BOTH an organizational as well as fund basis. The Budget Office should take the lead on developing policy on "balancing strategies" for the shared funds.

Parks and Waterfront Response to Recommendation

We agree with the recommendation that each department provide the Budget Office with quarterly expenditure and revenue reports. However, the Budget Office should define the structure and format of these reports. Depending on the complexity and volume of any additional reporting requirements, additional staffing resources may be required.

Recommendations for City Manager and the Budget Office

- 1.2 We recommend issuance of a general policy statement requiring department managers to operate within their annual budget allocations. We also recommend a policy statement regarding action to be taken when unforeseen events cause budgets to be exceeded.

Budget Office Response to Recommendation

It is agreed that departments should not exceed authorized budget levels. City expenditures are formally governed at the fund level through the Annual Appropriations Ordinance. The City's budget allocates spending authority within fund across operating departments. Departmental responsibility to spend within authorized levels is evidenced via nearly every management discussion of issues with fiscal implications, the existing financial reporting and review process as well as in year-end review of departmental results and, ultimately, performance review of department directors. Articulation of these actions in a policy statement would be appropriate.

Departmental operations are expected to be managed within budgets and, when projected variances arise, these are brought to the immediate attention of the City Manager, and the City Council through periodic financial reports. Corrective action is necessarily taken on a case-by-case basis, depending on the extent to which projected departmental variances impact overall expenditure authority at the fund level as authorized in the Annual Appropriation Ordinance. Examples of typical corrective action include requiring vacant positions to go unfilled, deferring discretionary operating expenditures, transferring of inter-fund appropriations across City departments, and/or requesting amendment to the annual Appropriation Ordinance. In addition, budget management becomes a factor in performance review.

Public Works Response to Recommendation

Partially agree. Language should be added regarding exceptions for unplanned emergencies that may cause funds to go out of balance (such as the Clean Storm Fund did as a result of the 1998 El Nino Storm event for which the City will not be fully reimbursed for all response and remediation costs).

Parks and Waterfront Response to Recommendation

We are in full agreement that departments should not exceed their budget appropriations. In addition, the implementation of positive incentives for budgetary performance warrants further discussion.

Finding 2: Minimum Skill Requirements, Written Guidelines - Procedures and Formalized Training For Budget Monitors Should be Established.

The City has not 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. Formal training for budget monitors has not been developed.

- i. No minimum skill requirements for the budget monitor. The Budget Office recommends that budget monitors have basic accounting knowledge and basic skills in budget principles. Some budget monitors did not appear to have the minimum skills required for the task. We reached this conclusion after review of the Personnel Department's position qualifications for job classifications currently held by budget monitors, and after we reviewed the lists of qualifications which budget monitors stated qualified them for the assignment. Employees with a wide range of job titles identified themselves as budget monitors, or were identified as budget monitors by their departments.
- ii. No Written Guidelines. Currently, written procedures on budget monitoring only address how to prepare budget modifications. There were no guidelines describing the tasks typically to be performed by a budget monitor; how to perform these tasks; and when to perform them. Budget monitors and supervisors throughout the City generally are left to develop their own procedures. As a result, monitoring may not be meeting the needs or expectations of City management.
- iii. No Formal Budget Monitoring Training. Many budget monitors interviewed stated that HTE reports and query skills, and fund accounting training, or additional training would be beneficial. When budget monitors were asked to identify what changes they would like to see which would improve their ability to monitor their department's budgets, the most common response was to improve the FUNDS\$ system. The second most common response was a request for more useful FUNDS\$ reports (easier to get; more information). The third most frequent response was budget training.

Recommendations for the Budget Office

- 2.1. We recommend that the Budget Office develop written guidelines describing the tasks which a budget monitor should typically perform, and how and when they should be performed.
Distribute the guidelines to all department heads and budget monitors.

Budget Office Response to Recommendation

Agree. The Budget Office will develop and distribute general guidelines and tasks for staff assigned as “budget monitors.” In addition, the Budget Office recommends that comprehensive financial procedures and instructions be developed and/or updated through a collaborative effort on the part of the Budget Office, Finance Department, Auditor’s Office and department directors. The proper processing of day-to-day transactions requires basic understanding of several financial sub-systems administered by a variety of City departments. These systems include: payroll (City Auditor), purchasing (Finance), workorders (Finance/IS), general ledger (Finance), contract payment processing (City Auditor) and financial reporting (Budget/Finance). Target Date: General Guidelines / Tasks issued November 1999

Auditor Disposition

We agree with the Budget Office concern regarding written procedures. While several of these should be currently under revision as a result of recommendations of our other audits, we suggest that a status report from each responsible department be included in the City Manager’s follow-up report to Council on the Budget Monitoring Audit.

Public Works Response to Recommendation

Agree

Parks and Waterfront Response to Recommendation

We are in general agreement with the recommendation that the Budget Office provide basic written guidelines for the duties typically performed by a budget monitor.

Recommendation for the Budget Office

- 2.2. We recommend that the Budget Office state the minimum skills requirements for budget monitors in the guidelines for budget monitoring.

Budget Office Response to Recommendation

Agree. The Budget Office will develop written guidelines and tasks related to budget monitoring (see recommendation 2.1). These guidelines will include minimum knowledge requirements. In general, familiarity with governmental accounting, budgeting and the City's multiple financial systems should be encouraged for all staff responsible for budget monitoring functions. Specific job requirements (and classifications) will, however, depend on the size and complexity of the departmental budget as well as specific departmental requirements. The City Manager has asked for an organizational impact assessment of this recommendation. Target Date: November 1999

Public Works Response to Recommendation

Agree

Recommendation for the Budget Office

2.3. We recommend that the Budget Office develop and present an annual training class or a series of training classes for budget monitors covering:

- Budget principles (including City policy and practices).
- How to obtain commonly needed information from FUNDS
- Budget monitoring tasks to be performed, their frequency, and how to perform them.

Budget Office Response to Recommendation

Agree. The Budget Office has included development of a training class on budget principles and City budgeting policies and practices as part of its FY2000 work plan. In addition, more comprehensive training covering the full array of budget monitoring tasks needs to be developed in conjunction with the Finance Department and the City Auditor's Office. A variety of trainings in the area of fiscal management will also be developed as part of the Citywide training program. Target Date: Ongoing

Auditor's Disposition

For audit follow-up purposes, the auditors will assume that the first class on budget principles and practices will be held by June 30, 2000.

We concur that the Budget Office may require assistance from other departments in conducting training on specialized FUNDS reports, but we strongly recommend that the Budget Office take lead on providing this training by June 30, 2000. Regarding budget monitoring tasks, we strongly recommend that the Budget Office provide this class by June 30, 2000 as well. Establishing guidelines is the

responsibility of the Budget Office.

Public Works Response to Recommendation

Agree

Parks and Waterfront Response to Recommendation

Additional budget training is always welcome!

Finding 3. Expenditure Activity Is Not Up To Date in FUNDS

During the first 10 months of fiscal year 1999 expenditure information was often not up to date in FUNDS. When FUNDS transaction data is not timely, it is difficult for departments to monitor their budgets. Staff must spend time identifying and estimating expenses that have been incurred but not recorded in order to monitor budget to actual performance.

The following expenses were often not recorded timely:

- i. Labor expenditures and fringe benefits were often not timely posted in the general ledger during the first and second quarter. We observed five instances during the year when biweekly payroll expenses were not recorded in the general ledger for 38 to 50 calendar days. During these periods, FUNDS did not include payroll expense for 2-3 payrolls. A typical biweekly City payroll, including fringe benefits, is approximately \$4.7 million, which is a significant expenditure. A representative from the Finance Department stated that this condition was caused by the following:
 - Policy changes. Effective July 1998, the City began recording actual fringe benefits rather than an estimated lump sum fringe benefit costs based on a fringe benefit factor. This change requires additional validation procedures be performed by Finance.
 - An insufficient number of account codes in the general ledger to record benefits in detail. These codes were to be added so payroll information could be recorded.
 - Discrepancies between the payroll certification, payroll register, and the interface payroll transactions which must be corrected prior to posting to

the general ledger.

In recent months, posting of payroll expense was done within 11 calendar days. However, instances of untimely posting of payroll expenditures in the general ledger were also identified during fiscal year 1998, indicating untimely posting during fiscal year 1999 is not an isolated instance. During fiscal year 1998, there were two biweekly payrolls which took over a month to post. There were also four payrolls which took about three weeks to post. Written procedures establishing a procedure and a timeline for posting payroll expenses to the general ledger are not available.

Also, during the first five months of fiscal year 1999, monthly closing of the general ledger was completed up to six weeks after the accounting period had ended. We believe the accounts were held open so that payroll expense for the month could be recorded in the proper month. However, until a prior month's accounting period is closed, adjusting journal activity (used to post many expenses: e.g. payroll, fringe benefits, and interdepartmental charges) for the current month is not identified as an expense in demand expenditure reports generated by FUNDS\$. This practice has a significant negative impact on a budget monitor's ability to properly monitor the budget.

Auditor's Office – Payroll Division Response

Agree with findings. The HTE system creates payroll batches for GMBA at the time that payroll data is updated, and also when checks are voided or manually issued. Batches were not created correctly on a few occasions, due to software problems, upgrades, the City's payroll modifications to customize the HTE payroll system, and/or human errors. Those problems were reported to HTE for correction.

Public Works Response

The timely posting of labor is a particular problem. Because data is not timely, the department has foregone progress billings on some grant-funded projects in favor of doing completion billings when sufficient time has passed to allow data to "settle". This can impact the timeliness of reimbursements, as was pointed out in a previous audit report on grants management.

- ii. Charges for some inter-departmental services and some other City charges are too often not timely recorded in the general ledger.

- City vehicle fuel and maintenance charges, and vehicle replacement contribution charges for the period July 1998 - February 1999 were not charged to departments by Public Works until March 1999 (up to 217 calendar days). Charges for the months of November 1998 - March 1999 represented estimates based on the expense charged for July 1998. A Public Works representative stated that monthly vehicle charges made during fiscal year 1998 were also often not timely, being made three to four months after the month being charged had ended. During fiscal year 1998, approximately \$6.2 million in City vehicle charges were charged to City departments for City vehicle fuel and/or maintenance charges, and City vehicle replacement contribution charges.

This is a significant expense which is not being timely charged to the departments. A Public Works representative stated that problems with the HTE Fleet Management Module, due to an upgrade for FY 1999, was the main reason these charges were not timely during fiscal year 1999. During fiscal year 1998, this representative stated that charges were not timely because prior to the last HTE upgrade, developing monthly charges was much more time intensive for staff.

Documentation identifying the basis for monthly charges was generally not given to departments during FY 1999 or prior years. During the audit, one department notified us that they were not receiving support documentation for charges posted to their account timely. The department waited four months to receive the support documentation after it was requested. They stated numerous errors were found.

- Some other City charges also were not charged on a timely or regular basis.

Workers compensation expense should be recorded monthly; however, worker's compensation for the first six months of fiscal year 1999 was not charged to departments until December 1998. Workers Compensation charges for January - March 1999 were not charged until March 1999. April and May 1999 expenses were charged in the month that these expenses were incurred.

- Monthly facility maintenance charges took from three calendar days to as long as 52 calendar days to be posted in FUNDS. Thirty calendar days to post this monthly charge was not uncommon.

The reasons workers compensation expense and facility maintenance charges were not timely recorded in the general ledger were not determined.

Recommendations for Public Works and Finance

- 3.1. We recommend that Finance establish and adhere to a reasonable time line for posting interdepartmental City charges and payroll expenses. Monthly closings should be completed within seven working days after the monthly accounting period ends. We also recommend that support documentation for interdepartmental charges be sent to departments monthly for verification and reconciliation. These procedures and time lines should be documented by Finance.

Public Works Response to Recommendation

Agree. We acknowledge the problems with the inter-departmental charges for vehicles and facility maintenance. In the case of vehicle billings, there is a task force working on improving the interface between the HTE FLEET module and GMBA, and completing the establishment of the vehicle replacement budgets for each department. We are also working to completely revise the way facility charges are developed and applied. In support of true program costing, it is our purpose to shift to the responsible departments the costs of operating and maintaining the facilities housing the various programs and services provided. This will be a multi-year task. For now, we have a billing schedule, the “invoicing” for which is handled by a Finance Department program.

Finance Department Response to Recommendation

The Finance Department currently closes the accounting period within ten (10) calendar days after the month and has done so regularly. This is very similar to the City Auditor’s recommendation of seven (7) working days.

Clearly, incorrect or unverified payroll batches have been a major cause of delays in closing. Finance is concerned that the source of the delay in correcting batches be accurately identified; and that Payroll, Finance and Information Systems work jointly to resolve the problems. We suggest that, within 30 days of this response, the Payroll Manager convene a work group to tackle the problem (i.e., identify actual causes, define mutually agreed upon solutions and lead responsibilities, and identify applicable time frames for implementation.)

Finance is always concerned about assuring that all City Departments have support documentation sufficient for them to determine whether City charges for the month are correct.

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Finance will review the procedure to assure that this is happening and will document the applicable time lines and procedures. The documentation will be available for review by the Auditor no later than 2-1-00.

We agree that there was an unacceptable delay in recording the fleet charges due to significant problems with the HTE Fleet Module. This issue is still being worked on and charges will be included in the June 1999 financial closing. Evidence of the problem being corrected will be submitted to the City Auditor no later than 3-31-00.

We agree that there was a prior delay in recording Worker' Compensation and facility maintenance charges. The situation has been corrected since April 1999. Finance and Information Systems expended significant resources to make the system charges necessary to accommodate the revised method of charging fringe benefits.

Auditor's Disposition

Finance states that monthly closing of the general ledger is done on a regular basis. Our report cited many instances during the last two years of untimely monthly closings. We strongly encourage Finance to implement our recommendation to close each monthly accounting period within seven working days after month end. Other department representatives, including Budget Office management, stated that implementation of this recommendation is very important for them to monitor their budgets.

While Finance states (and we agree) that monthly closing is currently more timely than it was at the time of audit fieldwork, we believe that implementation of our recommendation to establish a specific reasonable timeline (benchmark) is necessary to maintain timeliness.

Budget Office Response to Recommendation

Agree. Timely and accurate posting of financial results is perhaps the single most important factor in contributing to the City's ability to effectively monitor, forecast and manage its fiscal resources.

Parks and Recreation Response to Recommendation

We agree that timelier FUNDS\$ data would allow for increased efficiency.

Recommendations for Finance and Auditor's Office (Payroll Audit)

3.2. We recommend that Finance and the Payroll Audit Division jointly develop written procedures for

reconciling bi-weekly citywide payroll expense in GMBA with the Payroll Module and payroll support documentation. We also recommend that bi-weekly payroll charges be posted to the general ledger within five working days after each pay date.

Payroll Audit Response to Recommendation

Agree with the Recommendation. Payroll Audit and Finance have been meeting regularly and have identified a number of causes of delay in payroll posting. The committee will recommend solutions for improvement. These should be identified and documented, and written procedures completed by both Finance and Payroll Audit by 11-30-99.

Finance Department Response to Recommendation

We agree that there should be written procedures for reconciling the bi-weekly Citywide payroll expense. It is clear that the inability to reconcile the bi-weekly payroll affects both Payroll and Accounting/GMBA. Again, we suggest that the Payroll Manager include this issue in the scope of work for the above recommended work group.

Auditor's Disposition

Finance has not agreed to implement our recommendation that bi-weekly payroll charges be posted to the general ledger within five working days after each pay date. As in the previous recommendation, we strongly recommend that Finance include a commitment to a specific timeline (benchmark) in their new procedures. Department representatives stated that timely accounting information is very important for them to be able to properly monitor their budget.

Public Works Response to Recommendation

Agree

Budget Office Response to Recommendation

Agree. Timely and accurate posting of financial results is perhaps the single most important factor in contributing to the City's ability to effectively monitor, forecast and manage its fiscal resources.

Recommendation for Finance and Public Works

- 3.3 We recommend that future upgrades to FUNDS\$, changes in accounting policy, and interdepartmental charge procedures, be sufficiently planned and tested before implementation. Upgrades and changes should not compromise the accuracy or timeliness of FUNDS\$

information. Staff should be promptly notified and trained regarding accounting upgrades. (Same as recommendation 4.3 which is only for Finance, Auditor's Office and Information Systems.)

Public Works Response to Recommendation

Agree. This section should also be directed to your office (with respect to auditing payroll activities) and to the Office of Information Systems.

Finance Department Response to Recommendation

This particular finding should be directed to the Budget Office and Information Systems as well as to Finance and other departments. We believe that upgrade testing is primarily the responsibility of Information Systems as it relates to developing the protocol, guiding the module leaders and assuring a completed test. Similarly, changes in accounting policy and-or the handling of interdepartmental charges often emanate from the Budget Office. We agree with the finding and will assure its implementation in those areas where Finance has primary responsibility and control.

Budget Office Response to Recommendation

Agree. Difficulties in effectively implementing upgrades to the FUND\$ system is largely attributable to the city's decentralized responsibilities for the numerous modules that make up FUND\$. While the Office of Information Systems helps to facilitate understanding of FUND\$ issues within the GMBA financial system, there currently exists a lack of understanding of programming and file structures among assigned module leaders in "user" departments. As such, it is extremely difficult to effectively monitor and test upgrades - particularly to the extent that upgrades affect multiple modules.

Auditor's Disposition

Responses from Finance, Information Systems, Payroll Audit, and Public Works (Recommendation 3.3 and 4.3 are the same recommendation for different departments) all appear to generally agree with the audit recommendation. However, they also include doubts as to whether it can be implemented. Please see disposition for recommendation 4.3.

Finding 4: Adjusting Journal Entries - Timeliness Concerns

During fiscal year 1998, the most recently completed fiscal year, several of the larger departments made most of their adjusting journal entries at the end of the year or after the fiscal year ended (twelfth–sixteenth months). Additionally, for the first nine to ten months of fiscal

year 1999 (when fieldwork ended), departments were not permitted to make labor distribution corrections in FUND\$. The overall effect is that the actual expense data in FUND\$ has not been accurate until 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.

i. Untimely Adjustments

The Health and Human Services (HHS) and Housing departments made 91 percent of their adjustments for the year during the twelfth month, or after the year had ended. The Public Works department made 67 percent of their adjustments during the same period. Total dollars adjusted for HHS and Public Works for the year totaled \$1,995,597 and \$1,519,064 respectively. The Housing Department also prepared a very large volume of year-end adjustments. However, Housing provided a schedule, which showed that these entries were almost solely to correctly record loan receivable activity (required accounting entries) or to assign project codes to accounts (improve accountability), and not to correct errors. Housing management has acknowledged that untimely adjustments are a concern in the department.

Representatives from each of these departments stated that one of the reasons this condition existed was because staff did not have enough time to do the analysis and prepare the journal entries earlier in the year. HHS representatives also stated that delayed revenue contract negotiations, a lack of information regarding appropriate distribution of expense, and staff on authorized leave, were other causes.

Because the HHS, Public Works, and Housing departments prepared most of their adjustments at or after fiscal year end, we reviewed some of their larger year-end adjustments. We had the following concerns about the timeliness of processing these adjustments:

- Health and Human Services Three of the five year end adjusting journal entries reviewed could have been prepared much earlier in the year than they were. Two of the adjustments were to correct salary distribution errors in FUND\$ which occurred over the course of the year for two employees. The adjustments reallocated \$14,675 for one employee and \$44,311 for another. Corrections were made during September 1998 and early November 1998, three to four months after the 1998 fiscal year ended. Another of these adjustments was made November 12, 1998 to correct \$207,885 in prior year grant revenue which had originally been incorrectly posted on September 17, 1997. The employee who prepared these adjustments, and his supervisor, stated that the adjustments followed

their normal scope of activities in managing the budgets of the Health Promotion Division.

Health and Human Services Response

Generally agree, however, the expenditure activity has not often been up to date in the FUNDS system which results in late financial reports being received by the departments. As a result, Health and Human Services (HHS) has typically made the majority of its adjusting entries during the year-end closing process in order to clean-up charges in the General Fund and grant supported programs. HHS' ability to make adjusting journal entries on a regular basis throughout the year depends upon the receipt of timely financial reports.

- Public Works. Five adjustments were recorded on December 17, 1998 to correct \$494,900 in salaries and fringe benefits that had been incorrectly charged to the general fund in fiscal year 1998. This was more than five months after fiscal year end. In general, salary and fringe benefits had been incorrectly charged to the general fund for the entire year. The errors were almost entirely a consequence of payroll default errors, project-account code errors, and errors in paid leave defaults. Payroll default accounts represent expense accounts which departments use to automatically account for an employees' salary and fringe benefits each payroll. A Public Works representative stated that this group of adjustments would have typically been made after the fiscal year ended, but much earlier in the closing process.

Public Works Response

Public Works has historically made most adjusting journal entries during the year-end financial closing process. For fiscal 1998 the largest adjusting journal entries were made during the final phase of year-end closing in November 1998. This was due almost entirely to the fact that there was no process or procedure in place to allow the department to make these corrections at any point earlier in the closing process.

- Housing A number of the largest adjustments prepared at or after year-end were reviewed. They all pertained to the City's loan programs. As stated above, these adjustments are a required accounting entry to properly record loan receivables. Due to the complexity of the loan program and City accounting practices regarding loan activity, timely and untimely preparation of adjustments was often not readily apparent.

However, as stated above, Housing management has acknowledged that

untimely preparation of adjustments is a reason for the large dollar value of adjustments at year-end. Department representatives stated that this condition existed because of limited staffing, but do not believe it affects their ability to monitor their budget.

Housing Response

We concur with the finding. Housing Department will make every effort to prepare necessary adjusting entries on a timely basis.

Auditor Disposition for HHS, Public Works and Housing Response

It appears reasonable that there are a variety of reasons for late adjustments. We believe that our recommendations, if implemented, will successfully address the reasons identified by the departments, as well as the other contributing factors we discussed.

ii. No Procedure for Labor Distribution Adjustments during Fiscal Year 1999

For the first nine to ten months of fiscal year 1999 (when fieldwork ended), departments were not able to make labor distribution corrections in FUNDS. Even at this late date, staff in some departments were still being trained in how to use a new program to correct labor distribution errors. This appears to have occurred because the Finance Department and Auditor's Office made a decision at the beginning of the fiscal year not to allow City departments to make labor distribution corrections until a new distribution program in the FUNDS payroll module was implemented. Labor and fringe benefits comprise approximately 74 percent of the City's general fund expenses. Inability to correct labor distribution errors throughout most of the year made it difficult to determine actual year-to-date payroll expenditures, and to properly monitor actual expense relative to budgeted expense in FUNDS.

Recommendations for the Budget Office and Finance

- 4.1. We recommend that policy and procedure for preparing adjusting journal entries be revised to specify timeliness guidelines for recording these entries in FUNDS.

Finance Department Response to Recommendation

We agree with the recommendation. Written procedures exist. Finance will work with the City Manager's Office to determine how we might achieve better compliance prior to year-end FY 2000.

Budget Office Response to Recommendation

Agree. Timely and accurate posting of financial results is perhaps the single most important factor in contributing to the City's ability to effectively monitor, forecast, and manage its fiscal resources.

Public Works Department Response to the Recommendation

Partially agree. The recommendation does not consider that departments will differ as to the nature and number of adjusting journal entries necessary. It would be more appropriate to indicate that adjustments should be done on a regular basis, relative to the significance of the adjustment.

Housing Department Response to the Recommendation

Agree.

Auditor Disposition

In the auditor's view, a reasonable date for issuance and distribution of revised procedures is by June 30, 2000.

Recommendations for the Budget Office and City Manager

- 4.2. We recommend that the Budget Office and the City Manager evaluate staffing adequacy and the qualifications of budget monitors. We further recommend that increased training or staffing be considered in this area as necessary.

Budget Office Response to Recommendation

Agree. While Budget Office has agreed to develop and distribute general guidelines and tasks related to budget monitoring (see recommendation 2.1), how departments choose to assign these duties among staff members also involves the discretion of the department director. Appropriate staffing levels and qualifications will depend on the size and complexity of the departmental budgets. In addition, more resources is only one of many factors affecting the integrity of the information in the City's financial system. This is particularly true in an organization which recently went through several years of budget cuts. It is not uncommon for administrative functions to suffer relative to other functions performed by the City. However, this is in part a reflection of the priorities of the City's decision to have fewer analysts/accountants rather than cut direct services. Nonetheless, these decisions are not without their costs (i.e. less timely and

accurate accounting information). The budget office will recommend to the City Manager that our role in assessing qualifications should be strengthened.

Auditor Disposition

The auditors believe that information about suggested qualifications for budget monitors can be incorporated into the budget monitoring guidelines that the Budget Office has agreed to issue by November 1999.

Public Works Department Response to Recommendation

Agree.

Recommendations for Finance, Auditor's Office (Payroll Audit), and Information Systems

- 4.3 Future upgrades to FUNDS\$, changes in accounting policy, and interdepartmental charge procedures, should be sufficiently planned and tested before being implemented so that they do not prohibit City employees from properly maintaining the accuracy of FUNDS\$ information for an extended period of time. Staff affected by accounting upgrades should be notified and trained regarding the accounting upgrade. (Same as recommendation 3.3. applicable to Finance and Public Works.)

Information System Response to Recommendation

In general, we agree with this recommendation and shall work within our scope of influence to convince future participants from making decisions that adversely affect the general ability for user departments to maintain the accuracy of FUNDS\$ information.

Yet it is with this in mind that an executive decision was made to switch to HTE's payroll-based labor distribution adjustment feature. Switching meant that we would work with HTE as a beta site to fine-tune this feature. It also meant that we would be required to abandon our existing method of adjusting labor and accounting for fringe, which was based on summary adjustments and estimated fringe (rather than actual).

A calculated risk was taken in an effort to support an overall enhancement request to switch to an actual cost based accounting interface between payroll and the General Ledger. Due to resource allocation issues at HTE, the effort took too long and resulted in a reduced ability for departments to make labor adjusting entries. This task is still on going and HTE has further reduced their level of support and effort required to properly completing the requested features.

Although most departments are using this new feature, the process of balancing adjustments is cumbersome. In hopes of supporting a citywide implementation effort, Information Systems has pledged programming resources to finalize certain requested features.

Finance Department Response to Recommendation

This particular finding should be directed to the Budget Office and Information systems as well as to Finance and other departments. We believe that upgrade testing is primarily the responsibility of Information systems as it relates to developing the protocol, guiding the module leaders and assuring a completed test. Similarly, changes in accounting policy and/or the handling of interdepartmental charges often emanate from the Budget Office. We agree with the finding and will assure its implementation in those areas where Finance has primary responsibility and control.

Payroll Audit Response to the Recommendation

Agree that planning and testing is important for all modules. For the payroll module, this recommendation is already the practice. The Payroll Audit division spent four months late last year testing HTE's new-5.0 version of the payroll module before it was put into production. All departmental payroll clerks were briefed at the regular payroll Continuous Service Improvement (CSI) meeting about the changes in the new version that affect payroll processing.

Regarding the new labor distribution adjustment software in particular, Payroll Audit had limited involvement in the project. However, the project will impact payroll processing and the workload for payroll clerks and payroll auditors. My plan is to participate in analyzing the system and to make recommendations as to whether or not we should continue with the project.

Public Works Department Response to the Recommendation

Agree.

Housing Department Response to the Recommendation

Totally Agree.

Auditor's Disposition

Responses from Finance, Information Systems, Payroll Audit, and Public Works (Recommendation 3.3 and 4.3 are the same recommendation for different departments) all appear to generally agree with the audit recommendation. However, they also include doubts as to whether it can be implemented. These doubts appear to center around the following:

1. Other departments have primary responsibility for implementing this recommendation.
2. We are doing our job, but other departments are not.
3. If a feature is requested by executive management, normal controls and testing may be bypassed in order to implement the change.

We strongly recommend that the City Manager's Office as well as other City Departments resolve these issues as part of the process for implementing our audit recommendation. We suggest that the module leaders take lead responsibility when FUND\$ modules are involved. If our recommendation is not implemented, we believe business as usual will result in other large scale accounting problems and inefficiencies when future upgrades to FUND\$ and accounting policy changes are made. Because assignment of increased responsibility for module leaders may involve reallocation of resources, we suggest that the City Manager should include a specific directive regarding lead responsibility for implementing this recommendation in his follow-up report to council.

Finding 5: Adjusting Journal Entries - Lack of Documented Review and Approval

The Finance Department is posting adjusting journal entries which:

- i. Were prepared, reviewed, and approved within the originating department by the same employee. As a result, inappropriate and untimely adjusting journal entries can go undetected by management in the department that originated the adjustment.
- ii. Are often submitted to Finance without support documents as required by written procedures developed by the Finance Department. Support documentation is requested by Finance so that the adjustment can be checked by Finance for reasonableness before it is posted.

Adjusting journal entries are often initiated by the departments. Staff enter adjusting journal entry information into FUND\$, then print an adjusting journal Entry Edit Listing. Written procedures issued by the Finance Department during July, 1993 require the data entry person, and department authorized employee (usually the supervisor), to sign the edit printout. Signers are to print their names under their signatures. The Edit List is sent to Finance, where it is reviewed for reasonableness. If the entry is accepted, Finance updates FUND\$. These written procedures are not being followed. The Finance Department is posting adjusting journal entries that were prepared, reviewed and approved within the originating department by the same employee. They are not being reviewed by a department authorized employee as required by

the written procedures. It was also observed that signatories are not printing their name under their signature as called for in the written procedure.

The auditor reviewed eighteen of the larger year-end adjustments for fiscal year 1998. Nine (50 percent) did not include a signature that documented departmental review and approval by someone other than the employee who entered the data. The auditor observed that this condition did not occur with this frequency throughout the year. However, it was still observed to be a common occurrence. Additionally, Parks and Waterfront representatives confirmed that none of the adjusting journal entries prepared by their department were reviewed and approved by someone other than the data entry person within their department prior to submission to Finance.

Written procedures issued by Finance also require Finance to review department Adjusting Journal Edit Listings and check support documents for reasonableness. Written procedures state the type of support documentation that is to be provided for each type of adjustment. The auditor observed that support documentation for adjustments was often not available in Finance, prohibiting a proper review for reasonableness in many cases.

Public Works Response to Finding

The department Senior Budget Specialist reviews and signs most – if not all adjusting journal entries for Public Works. Appropriate supporting documentation is attached and copies are kept in the departmental files.

Recommendations for Finance

- 5.1 We recommend that Finance not accept adjusting journal entries until approved by an authorized reviewer from the department that originated the adjustment. We further recommend that Finance determine that departmental review was not made by the same person who entered the adjustment in FUNDS. We also recommend that departmental responsibility for adjusting journal approval be incorporated in written adjusting journal policy and procedure. Additionally, as required in the written procedures, we recommend that the adjustment preparer and reviewer print their names under their signatures. We recommend that Finance revise and redistribute the adjusting journal policy and procedure to the departments.

Finance Department Response to Recommendation

We agree that no adjusting journal entries (AJ's) that effect the financial position of the City

(i.e., change in assets, liabilities or equity of any fund) should be updated without an authorizing supervisor's approval. However, sending back AJ's that might be nothing more than a change in element-object code is unnecessary and may create worse situations such as failure to close the accounting period on time and AJ batches left indeterminately in limbo between accounting periods. Finance will continue to take whatever steps necessary to assure that material AJ's (i.e., those that affect the financial position of the City) are posted in a timely fashion with all supporting documentation in place and according to the existing written procedures.

Auditor's Disposition

Finance has only agreed to implement our recommendation when the adjusting journal entries affect the financial position of the City (i.e., change in assets, liabilities or equity of any fund). However, this practice will allow inappropriate adjusting journal entries to be recorded in the general ledger and go undetected. For example, the policy recommended by Finance would allow an employee to inappropriately transfer revenues or expenses from one grant funded project to another without detection by their supervisor or by Finance since many grants are generally accounted for in the same fund. Such transfers are almost always in violation of the grant. Supervisory review and approval of adjusting journal entries is considered a basic and inexpensive internal control to reduce the risk of inappropriate adjustments being made. We suggest that Finance either implement our recommendation, or propose and implement an alternative recommendation to clear this finding.

Budget Office Response to Recommendation

Concur with Finance Department response.

Public Works Response to Recommendation

Agree

Parks and Waterfront Response to Recommendation

We agree that adjusting journal entries should be prepared and reviewed-approved by different individuals. Our staffing configuration has not effectively allowed this to occur. However, the department will review its current procedures and make the necessary changes so that the same individual does not complete all of these tasks for the same journal entry.

Recommendation for Finance

- 5.2. We recommend that Finance remind departments to submit supporting documentation for every Adjusting Journal Entry Edit Listing sent to Finance for updating in FUNDS\$, in compliance with written procedure.

Finance Department Response to Recommendation

We agree that no adjusting journal entries (AJ's) that effect the financial position of the City (i.e., change in assets, liabilities or equity of any fund) should be updated without an authorizing supervisor's approval. However, sending back AJ's that might be nothing more than a change in element-object code is unnecessary and may create worse situations such as failure to close the accounting period on time and AJ batches left indeterminately in limbo between accounting periods. Finance will continue to take whatever steps necessary to assure that material AJ's (i.e., those that affect the financial position of the City) are posted in a timely fashion with all supporting documentation in place and according to the existing written procedures.

Auditor's Disposition

It appears that Finance has only agreed to implement our recommendation when the adjusting journal entries affect the financial position of the City (ie., change in assets, liabilities or equity of any fund). This is contrary to Finance's written policies and procedures. We recommend that our recommendation be implemented. In this case, we are simply asking Finance to remind departments to attach supporting documentation to their adjustments. We suggest that Finance either implement our recommendation, or propose and implement an alternative recommendation to clear this finding.

Budget Office Response to Recommendation

Concur with Finance Department response.

Public Works Response to Recommendation

Agree

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

The Budget Office too frequently does not timely update budget modifications submitted by departments in FUND\$.

Written procedures require the Budget Office to update budget modifications, or contact the department regarding a problem, within two days. However, it is common for the Budget Office to take four to eight working days to update budget modifications. In some cases it took more than two weeks to update budget modifications. Departments stated delays are not due to problems with the budget modifications they submitted for updating. Significant delays in updating budget modifications can make it more difficult for departments to use FUND\$ to

monitor their budgets. It also delays purchases and contract encumbrances which cannot be made until after budget modifications are updated.

The Budget Office Manager stated the Budget Office and Finance have been considering changes to the chart of accounts so that the number of budget modifications required by departments could be reduced. The changes would allow departments to exceed their budget for a particular expense account as long as there was sufficient money in the budget to pay for an expenditure within a range of accounts. The Budget Office Manager stated they would continue to review and approve certain types of budget modifications, which if inappropriate, could cause significant problems. The Budget Office Manager stated that Finance representatives had expressed concerns that changing the chart of accounts may cause problems with retaining prior year account history. A time line for evaluating and implementing this project has not been established.

Recommendations for the Budget Office

- 6.1. We recommend that the Budget Office track the time it is taking to update budget modifications. We further recommend that performance should be periodically reported to management, and corrective action taken if budget modifications are not being updated within two days.

We further recommend that the Budget Office use clerical staff to update low risk budget modifications, a procedure Budget Office management has considered.

Budget Office Response to Recommendation

Agree. The Budget Office has established revised procedures for improving the processing of budget modifications. Specifically, the office is now able to monitor turn-around time for budget modification requests and has re-assigned "routine" processing of budget modifications to appropriate staff. While it is absolutely true that the Budget Office has not strictly adhered to the 2-day turn-around time, it is not clear that this is necessary or appropriate. In fact, the new procedure calls for the processing of "routine" budget modifications within 3 working days. More "complex" budget modifications (those involving personnel, internal services and overhead line items, and/or requiring amendments to the Appropriation Ordinance) will be processed and/or returned to departments within 5 working days. While the Budget Office has not instituted a formal reporting of budget modification turn-around times, the revised process will enable the reporting of this information, upon request. Finally, it should be noted that the Budget Office has generally worked closely with departments to prioritize budget modifications so as to specifically not hamper operations.

Target Date: Completed

Auditor Disposition

Even though the response is “agree” the Budget Office is not agreeing to the recommendation to periodically report turn around time to management. We recommend that this aspect of our recommendation be implemented.

We further recommend that the Budget Office formally notify all City departments in writing about the new turn-around times for updating budget modifications in FUNDS\$.

Public Works Response to Recommendation

Agree

Recommendations for the Budget Office and Finance

6.2 We recommend that within a month of the issue date of this report, the Budget Office and Finance establish a time line for evaluating and implementing (if applicable) chart of account changes currently under consideration which will reduce the number of unimportant budget adjustments required.

Finance Department Response to Recommendation

We agree with the recommendation. We have not had a chance to coordinate our response with the Budget Office so cannot commit to a timeline as recommended. We will initiate a meeting with the Budget Office within 30 days of this response to both develop and agree upon the recommended timeline, which will be communicated to the City Auditor; or to draft additional comments explaining why such timeline is not possible or practical at this time.

Budget Office Response to Recommendation

Agree. We are working in conjunction with Finance and IS staff to re-organize the Chart of Accounts to allow for the establishment of expenditure “categories” which would eliminate the need for many budget modifications. The effect would be to control expenditures within categories of appropriations rather than at the line item level. Target Date: Ongoing Project is included in the Budget Office’s FY2000 workplan and is expected to be implemented July 1, 2000.

Public Works Response to Recommendation

Agree. However, it is our understanding that the Budget Office is considering having the so-called “low-risk” budget mods updated at the departmental level. We believe this needs to be

pursued. We have recommended to the Budget Office that guidelines be established for pushing authority for approval of budget modifications down into the departments, assuming consistent compliance with rules which guard against inter-fund transfers, the taking of another department's funds, and withdrawal of budgets for agreed-upon inter-departmental charges. The Public Works Department supports and has been a participant in the Chart of Accounts revision project, headed by the Budget Manager.

VI. CONCLUSION

The most significant issues discussed in this report were:

- The need for budget monitoring guidelines, including the qualifications expected for staff assigned the budget monitoring function.
- The need to train staff assigned to the budget monitoring function on how to carry out the assignment.
- The need for accurate and timely recording of all City of Berkeley economic activity in the financial information system.
- The need for department heads to report quarterly on budgetary performance to the Budget Manager, the City Manager, and the City Council.
- The need for sound accounting software within the financial information system to assure accurate and timely reporting.

The importance of requiring that an executive level manager champion the effort to address these needs cannot be overemphasized. The Budget Manager is the logical person to take on this leadership role.

Because successfully meeting the needs listed must cross departmental lines, the Budget Office should also coordinate work with the Finance Department and the Office of Information Systems as well as the work that must be done by staff in the operating departments.

We believe that the infrastructure improvements we recommend in this report are essential for a strong accountability system for the City.

