



OMB Budget Process Audit A2018-13

Issued by the
Internal Audit Office
November 6, 2018

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Office of Management and Budget (OMB) Budget Process. Based on the results of the audit, one finding has been identified. The finding is considered significant in nature.

Listed below is a summary of the finding identified in this report:

1. The OMB Department Budget Policies Manual was last updated in April 2006.

For a detailed explanation of the finding, please refer to the body of this Audit Report.

BACKGROUND

The Office of Management and Budget (OMB) develops and administers the budget process as a sound basis for planning, decision-making, and managing control of City resources for the Mayor, City Council, Department Heads, and the public. The staff continually analyzes the revenues, appropriations, expenses, and encumbrances of all departments to develop clear financial reporting mechanisms of the status of resources, which are used as management tools for city officials in the City's ongoing effort to provide the public with effective, efficient, and responsive municipal services.

The OMB staff develops the City's annual operating, debt service, and capital acquisition budgets within legal and prudent fiscal management requirements. In addition, the staff monitors expenditures throughout the fiscal year to ensure that all City departments remain within budget allocations and prepares monthly financial reports of the City's comprehensive budgetary status including revenue and expenditure projections, income statements, cash flow analysis, and long term projections.

The OMB Department received the Government Finance Officers Association (GFOA) *Distinguished Budget Presentation Award* for the Fiscal Year Beginning September 1, 2017. This award recognizes individual governments that have prepared budget documents of the highest quality and reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's best practices on budgeting.

OMB also administers the compilation of the citizen survey which is conducted approximately every two years and is used to provide input to Mayor, Council, and Senior Management in directing resources and providing feedback regarding delivery of city services.

AUDIT OBJECTIVES

The objectives of this audit were to evaluate and assess OMB's:

- Budget Policies and Procedures.
- Communication and feedback process.
- Budget transfer process.
- Budget approval process.

AUDIT SCOPE

The audit period covered the operations of Fiscal Years 2017 – 2018.

AUDIT METHODOLOGY

In order to achieve the audit objectives, we:

- Conducted interviews with the OMB Management and staff,
- Obtained an understanding of the OMB's Policies and Procedures,
- Determined if OMB has documented Policies and Procedures for consistent budget development across all departments,
- Determined if OMB is monitoring cash reserve and contingency fund balances,
- Determined if OMB provides City departments with regular budget monitoring reports,
- Determined if OMB has a process to seek feedback form the City Manager/Executive staff regarding budget matters,
- Determined if OMB formally informs departments of Supplemental Budget Request status.
- Determined if OMB has a process to ensure Budget Transfers are properly approved,
- Determined if OMB has a process to help ensure Budget Transfers are processed in a timely manner,
- Determined if OMB documents management responses to Supplemental Budget Requests.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards and the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES***

The definition of a “Significant Finding” is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, is a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as a “Regular Finding”.

Finding 1

Policies and Procedures

City of El Paso Strategic Plan 2017:

- Goal 6.3; *Implement programs that reduce organizational risk.*
- Goal 6.4; *Implement leading-edge practices for achieving quality performance excellence.*
- Goal 6.13; *Maintain systems integrity, compliance, and business continuity.*

A strong system of internal controls requires that Policies and Procedures be developed that document routine or repetitive activity followed by an organization. The development and use of Policies and Procedures are an integral part of a successful quality system as it provides individuals with the information and guidance to perform a job properly.

In reviewing the April 2006 Budget Policies Manual, the Internal Audit Office identified the following:

1. OMB’s Budget Policies Manual was last updated in April 2006.

Efficient Organizations create and keep current their Policies and Procedures to provide an accurate roadmap for day-to-day operations and give guidance for decision-making.

2. Section IX of OMB’s Budget Policies Manual states the City appropriates a minimum of \$1.5 million in an Operating Contingency Account.

Currently, the appropriation for the Operating Contingency account is \$1 million per the Chief Financial Officer for the City of El Paso.

3. Section X of OMB’s Budget Policies Manual states the City maintains a Cash Reserve Fund of \$16 million.

Currently, the City of El Paso Charter, Section 7.4 – Cash Reserve Fund states:
A Cash Reserve Fund in the general operating fund of the City shall be maintained in an amount no less than five percent (5%) of the prior years adopted general fund operating expenditure budget. For Fiscal Year 2018 the amount would be \$19.1 million.

Recommendation

OMB should ensure:

1. The Budget Policies Manual and procedures specific to their Department are updated to reflect current operations.
2. Section IX of the Budget Policies Manual is accurate when stating the amount appropriated for the Operating Contingency Account.
3. Section X of the Budget Policies Manual is accurate when stating the amount maintained in the Cash Reserve Fund.

Management's Response

The Office of Management and Budget will update the Budget Policies Manual and present the update to the Financial Oversight and Audit Committee during a regularly scheduled meeting. The updated policy will include revisions to Section IX and X as recommended.

Responsible Party

K. Nicole Cote, Director

Implementation Date

Spring 2019

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods beyond the Audit Report date are subject to the risk that procedures may become inadequate due to changes in conditions, management override of internal controls, or that the degree of compliance with the procedures may deteriorate. This was a limited scope audit which only reviewed the areas stated in the Audit Objectives during the Audit Scope period. No representations of assurance are made to other areas or periods not covered by this audit.

CONCLUSION

We have concluded our work on the objectives of the OMB Budget Process Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the findings and conclusion. In accordance with Generally Accepted Government Auditing Standards, we are required to conclude whether OMB met the objectives of this audit. Based on our audit work, we have determined that:

1. OMB did meet the audit objectives in the following areas:
 - OMB does publish monthly budget monitoring reports for each City department.
 - OMB does have a process for verifying Budget Transfer approvals.
 - OMB does monitor track the status of Budget Transfer requests.
 - OMB does track the status of Supplemental Budget Requests submitted by City departments.
2. OMB did not meet the audit objectives in the following areas:
 - OMB did not have a Budget Policies Manual that is up to date with their current operations.

We wish to thank OMB management and staff for their assistance and numerous courtesies extended during the completion of this audit.

Signature on File
Edmundo S. Calderon, CIA, CGAP, CRMA, MBA
Chief Internal Auditor

Signature on File
Daryl Olson, CIA, CGAP
Auditor III

Signature on File
Miguel Montiel, CIA, CGAP
Auditor IV

Distribution:
Financial Oversight and Audit Committee
Tomas Gonzalez, City Manager
Robert Cortinas, Chief Financial Officer
Katherine N. Cote, OMB Director