

REPLY AND IMPLEMENTATION SUMMARY
FOLLOW-UP REVIEW OF AUDIT OF BUDGET DEVELOPMENT, MONITORING AND CHANGE PROCESSES

RECOMMENDATION	RESPONSE	CURRENT STATUS	IMPLEMENTATION DATE	AUDITEE COMMENTS
1. The Budget Director position should be an appointed official dedicated exclusively to Management and Budget activities.	Concur (P) Concur with Reservations (C)	Implemented	June 2003/ September 2004	Based on the Mayor's reorganization in June of 2003, seven operating sections unrelated to budget have been reassigned to General Administration (Fleet/Facilities, Labor Relations, City Clerk, etc.). This reorganization positioned the Budget Division so that there is a closer association with the Accounting and Financial Reporting Division. This reorganization, however, did not dedicate the Budget Director solely to management and budget activities. That decision is outside the scope of authority of the MBA Director. Filling of "authorized" positions in the Budget Division was completed in September of 2004. As suggested in this report, management will be evaluating the appropriate staffing level for the Budget Division in order to implement the other recommendations set forth by the Office of Audit and Evaluation.
2. The Budget Director should formulate an action plan to elevate the level of budget analysis and reporting needed to effectively control budget processes and communicate results.	Concur with Reservations (P) Concur (C)	Implemented	September 2004 and Ongoing for Continuing Efforts	We concur with the recommendation that there is a need to improve the level of budget-related services provided to City departments and senior management. We have recently replaced two budget staff with experienced budget analysts hired from other governments. These new analysts will assist with the development and implementation of effective budgetary controls. As noted in our response to Recommendation #1, additional staffing will be required to implement all of the recommendations contained in this report. Management will evaluate the cost/benefit of new budget position against identified needs for budgetary enhancements.
3. The Budget Director should review the criteria for Management and Budget professionals, to give preference to degrees in accounting and finance in future hiring.	Concur with Reservations (P) Concur (C)	Implemented	September 2004	All vacant positions in the Budget Division have been filled with experienced professionals holding masters degrees. However, the work product expected from a fully functional budget department necessitates the hiring of employees that possess degrees in disciplines other than finance and accounting. For example, a budget department may have staff members who hold a degree in economics to perform revenue estimation and forecasting. The objective is to have employees with the appropriate education and experience for the tasks assigned.

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4. The Budget Director and staff should pursue opportunities for more training, interaction, and experience in best practices, through organizations of peer professionals.	Concur with Reservations (P) Concur (C)	Implemented	FY 2004 and Ongoing	Management will vigorously pursue training opportunities through peer organizations, college programs, and contacts with other budget offices. As an example, three budget analysts were sent to the FGFOA School of Government Finance last year. These efforts will be continued.
5. The Budget Director should work with the CFO to propose formal policies about establishing needed reserves and the conditions necessary for the use of City reserves.	Concur (P) & (C)	Implemented	June 2004	The City Council approved an Operating Reserve Policy on June 20, 2004.
6. The Budget Director should work with the CFO to propose formal policies to report periodically on the actual uses and amounts of reserves and the extent to which current fiscal conditions may affect reserves.	Concur (P) & (C)	Implemented	June 2004	The City Council approved an Operating Reserve Policy that sets benchmarks for reserves and identifies factors by fund that influence the level of reserves. Under this policy, the Chief Financial Officer will provide an annual report to the City Council after the preparation of the CAFR.
7. The Budget Director should propose revised City Policies & Procedures to: (1) require departments to submit initial budget requests allocating project costs among appropriate budgetary accounts; and (2) establish dollar limits for the Budget Director, other officials, and the BRC to approve transfers between accounts.	Partially Concur (P) Concur (C)	Planned for Implementation	Calendar Year 2005	MBA is in the process of updating its policies and procedures. Given significant staff turnover, other departmental responsibilities, and regulatory deadlines, this task has not been completed. Since the Director, Deputy Director, and two budget analysts are new to the Budget Division and/or the City, we have made a strategic decision to complete one full budget cycle before changing policies. However, in general, we concur with this recommendation and it will be incorporated into revised policies.

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8. The Budget Director should update the program's internal policies and procedures for all budget activities, and further enhance City Policies & Procedures to include all responsibilities of or interactions with other City departments or offices.	Concur with Reservations (P) & (C)	Planned for Implementation	Commence in Calendar Year 2005 and Ongoing	The Budget Division has been tasked with reviewing budget development and monitoring processes currently used by the City. With the varied experience possessed by the new budget analysts, management expects to draw on these resources to improve all budget practices. Although the City has informal policies for many of these items, written policies and procedures to guide the budget process will be developed. We do not concur with monthly budgets at the present time as noted in Recommendation #13.
9. The Budget Director should seek the GFOA's Distinguished Budget Presentation Award.	Partially Concur (P) Concur (C)	Implemented	Fiscal Year 2004 Budget	The City was awarded the GFOA Distinguished Budget Presentation Award for the FY 03/04 Approved Budget. Although the GFOA substantially increased requirements for future year submittals, management is committed to making this a recurring event.
10. The Budget Director should consider publishing an explanatory booklet or simplified guide to assist interested parties in obtaining a better understanding of the City's budget.	Concur (P) Concur with Reservations (C)	Partially Implemented (Budget in Brief)	To Be Determined	The City publishes a Budget in Brief that provides a high-level overview of the budget. While we concur with this recommendation in concept, there are fundamental process improvements that must be made before resources can be devoted to this type of "enhancement." In the Hillsborough County example cited in the report, that county spent several years developing and improving their fundamental budget practices before they were in a position to publish the Taxpayer's Guide to the Budget. Absent adding staff to the Budget Division, there should not be an expectation that the City will be in a position to move beyond traditional budget documents in the very near future.
11. The Budget Director should examine the best practices of other local governments for examples to enhance the City's presentation of performance reporting including easily understood high level summaries and pictorial presentations using graphs and charts.	Concur (P) & (C)	Implemented	Ongoing Process	New budget analysts have brought a wide variety of experience with best practices and performance reporting. Additionally, the FY 04/05 Approved Budget Book will contain enhanced communication tools in order to meet new requirements for the GFOA's Distinguished Budget Presentation Award. As cited in our response to Recommendation #4, we will investigate how other governmental budget offices present information in their public documents.

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<p>12. The Budget Director should develop a systematic means for the Budget Analysts to monitor budget variances through internal policies and procedures that identify the types of monitoring reports to be generated, timing of report distribution, and the requirement for formal communication of budget variances.</p>	<p>Concur (P) Concur with Reservations (C)</p>	<p>Partial Implementation</p>	<p>Ongoing</p>	<p>The Budget Division has been tasked with reviewing budget development and monitoring processes that are currently used by the City. Subsequent to the issuance of this report, the new MBA Director established monthly meetings with Departments to review budget variances and to gather information on upcoming events that may have an adverse budgetary impact. This included development and distribution of new budgetary reports. While we concur with the overall objective of this recommendation, we do not believe the budget monitoring process can be described as systematic and contained in a formalized written process since flexibility is required to adapt to organizational changes and work practices.</p>
<p>13. The Budget Director should: (1) propose City Policies & Procedures requiring the operating departments to implement a phased-in program to develop budgets for each month of the fiscal year, including “non-departmental” revenues and expenditures; (2) utilize this information in comparing budget figures to current and prior year actual amounts; and (3) work with the CFO and Comptroller to develop the most useful means of reporting this information.</p>	<p>Concur with Reservations (P) Do Not Concur (C)</p>	<p>Not Implemented</p>	<p>Not Applicable</p>	<p>We are beginning to train departments on new budget control techniques. Accordingly, there are a number of process and system enhancements that must be made before resources are allocated to implement this type of recommendation. While there may be a slight value in budget allocations by month, there are other improvements that could yield a greater benefit to the City. We will, however, survey other governments to determine which entities (if any) prepare monthly budgets and inquire as to the value of that practice.</p>

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14. Management and Budget should prepare monthly budget variance reports, require City managers to timely explain these variances, and compile the variances and explanations into a comprehensive report for senior management.	Concur (P) Concur with Reservations (C)	Partial Implementation	Ongoing	Ultimately Departments are responsible for managing their expenditures to stay within budgetary allocations, and JD Edwards OneWorld provides enhanced real-time reporting tools to facilitate that monitoring. With planned exceptions, starting last year MBA met monthly with Departments to review budget variance reports. There is also a new monthly budget to actual report submitted to City Council. In addition, there is a six month actual report, by fund, prepared by MBA financial reporting staff and sent to City Council and Department Directors.
15. The Budget Director should propose a policy and work with departments responsible for projects to develop a reporting mechanism for periodic project status reports which detail actual costs, estimated costs to complete, and potential cost overruns or savings.	Concur (P) & (C)	Planned for Implementation	Commence in Calendar Year 2005 and Ongoing	The budget position dedicated to capital projects was eliminated in the 2003 downsizing and we have reallocated a portion of a remaining budget analyst's time to perform this function. In order to successfully implement this recommendation, a significant commitment will be required from the Department of Public Works. While capital project managers are ultimately responsible for managing their projects, we will evaluate this function to determine if the capital project budget analyst position should be reestablished. We will also forward this recommendation to Public Works since they have fiscal staff within their department capable of performing this function.
16. The Budget Director should report significant project variances or concerns to the CAO periodically.	Concur (P) Concur with Reservations (C)	Planned for Implementation	Cannot be Determined	The budget analyst position dedicated to capital projects was eliminated during the downsizing in 2003. Ultimately Departments are responsible for monitoring their budgets and notifying the Budget Division and senior management when there is a concern about project costs (since they are the managers who understand the percentage of completion in relation to remaining budget). Cabinet meetings have been used to discuss budget matters. The new MBA Director has emphasized at Cabinet and department meetings that cost overruns are not allowable. The MBA Director has also met with the Public Works Director specifically on this topic.

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<p>17. The Budget Director should: (1) propose City Policies & Procedures to place with the approving departments, offices and bureaus the responsibility for reviewing the accuracy of program charges; and (2) ensure reports for this purpose are easily retrievable from JDE OneWorld and Fiscal Managers are adequately trained in their use.</p>	<p>Concur with Reservations (P) & (C)</p>	<p>Implemented</p>	<p>Fiscal Year 2004 and Ongoing</p>	<p>Reviewing the accuracy of program charges is a fundamental responsibility of department managers and does not require a City Policy or Procedure to implement. However, this responsibility will be reemphasized. In addition to regular reviews, Department Directors have monthly variance reports that can be utilized to identify unusual or inaccurate charges. A special training session was coordinated by MBA last year for all fiscal managers in the City. That training focused on the process for running budget reports through JD Edwards OneWorld and was taught by Technology Management staff.</p>
<p>18. The Budget Director should consult with the Financial Systems Manager and Technology Management to determine if there is a practical security control to prevent individuals from charging expenditures to programs or projects that they have not been authorized to charge.</p>	<p>Partially Concur (P) Concur with Reservations (C)</p>	<p>Not Implemented</p>	<p>Not Applicable</p>	<p>Management believes effective monitoring by Fiscal Managers, coupled with additional reviews by MBA staff, significantly reduces the likelihood of incorrect charges being made to accounts. While a few JDE customers have customized the security function to incorporate the control contained in this recommendation, previous City management made a business decision to adhere to the baseline functionality provided by this financial management package. To implement this recommendation would require customized programming (with related costs) and would affect implementation of future system upgrades. However, we will forward this recommendation to Technology Management for consideration.</p>
<p>19. The Budget Director should enforce City Policies & Procedures to hold departments accountable for their project budgets at the group level, and require departments to submit a budget revision in time to prevent overspending within any group.</p>	<p>Concur (P) Concur with Reservations (C)</p>	<p>Partial Implementation</p>	<p>Calendar Year 2005</p>	<p>The new Project Overdraft Report identifies instances where projects have gone over budget and Departments are notified to remedy that situation. Resultantly, there has been a decline in the number of projects reaching this point. We concur that the capital project monitoring process needs significant enhancement and we will research how other governments perform this function. Revised policies and procedures will be developed after we have defined the level of budgetary control that meets the City's needs and after we have evaluated how other governments perform this function. In addition, we will evaluate reinstatement of the capital projects budget analyst position.</p>

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20. The Budget Director should ensure that fund initiatives comply with City Policies & Procedures for spending within project budgets.	Concur with Reservations (P) Concur (C)	Implemented	Fiscal Year 2004	This recommendation deals specifically with the Parks Initiative Fund that was established at the request of the previous Mayor. That fund was handled in accordance with the previous Mayor's instructions which required a deviation from policy. That fund is substantially complete. New management does not intend to deviate from the current policy that requires monitoring at the project level.
21. The Budget Director should obtain approval to establish an ad hoc project assessment team comprised of City staff to assist elected officials and senior management to assess the financial and operational feasibility of proposed projects.	Concur with Reservations (P) & (C)	Planned for Implementation	FIS in October 2003 / Research Ongoing	MBA will research how other governments evaluate and monitor capital projects to determine the best method for the City of Orlando. We agree that greater oversight is required. One question to answer is which department has the appropriate skill set to exercise oversight for capital projects. Note that a Fiscal Impact Statement (FIS) process was initiated by the new MBA Director. This statement requires the project originator to specify in writing the current and future year costs of a project. The FIS must be signed by either the Department Director or an authorized Division Manager. The new procedure has resulted in certain projects being reconsidered, changed in scope, or postponed, which is consistent with Audit and Evaluation's recommendation.
22. The Budget Director should establish internal policies and procedures to guide the Budget Analysts and City Policies & Procedures to direct the operating departments in the tasks and timing required in the budget development process.	Concur (P) & (C)	Partial Implementation	To Be Determined	Written budget guidance and a published budget calendar that outline the budget development process were revised last year. Management agrees that further revisions are needed. In conjunction with other recommendations contained in this report, MBA will continue to revise old policies and procedures as well as develop new ones.

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23. The Budget Director should take actions to ensure that all significant non-routine obligations for upcoming years are properly included in the applicable budget year.	Concur (P) & (C)	Implemented	October 2003	MBA has implemented a requirement for departments to prepare Fiscal Impact Statements for financial items appearing on the Council Agenda. That process alerts each department of actions that will have future budget year impacts. In addition, the MBA Director routinely advises Cabinet members of the need to incorporate non-routine obligations in their budget requests. Departments are ultimately responsible for ensuring that their budget request contains all items that will be required in the next fiscal year.
24. The Budget Director should establish a permanent function to develop income and expense projections and forecasts through a forward-modeling process.	Concur with Reservations (P) Concur (C)	Implemented	Fiscal Year 2004	MBA prepared a five-year forecast starting with the FY 04/05 budget year. MBA will regularize this activity and incorporate it in the budget development process.
25. The Budget Director should consider implementing a biennial budgeting system for the City.	Concur ((P) Concur with Reservations (C)	Not Implemented	To Be Determined	There is no definitive research that supports the contention that biennial budgeting is more beneficial than an annual process. MBA will continuously monitor budgetary best practices and will implement those items that benefit the City. Enhanced forecasting, which MBA has implemented, can provide many of the same positive features of a biennial budget. Most importantly, MBA intends to focus on fundamental improvements that must be made to the budget process before embarking on other changes.
26. The Budget Director should evaluate whether some form of zero-based budgeting would benefit the City in an effort to periodically and systematically scrutinize each program to justify the level of continued funding.	Concur (P) Concur with Reservations (C)	Not Implemented	To Be Determined	The role of MBA in the budget development process is to provide information to decision-makers in a usable form. MBA will continuously monitor budgetary best practices and will recommend changes to methodologies when those changes are advantageous to the City and senior management. As was stated in Recommendation #25, MBA intends to focus on fundamental improvements to the budget process. Note: we do agree that ZBB has advantages and this recommendation will be seriously considered for implementation.

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27. The Budget Director should establish internal policies and procedures to calculate payroll-related budget amounts more precisely, and to give more specific guidance to departments about their responsibilities in this area.	Concur (P) Concur with Reservations (C)	Partially Implemented	Ongoing	MBA has implemented improvements in budgeting for payroll-related expenses, including leave buy-downs and union agreements. MBA will work with Human Resources to refine this process further. However, there must be a recognition that software system limitations will have an impact on our ability to project payroll costs in greater detail. Currently the City does not have a personnel service cost projection system.
28. The Budget Director should direct the Fleet/Facilities Management Bureau to commence preparing estimates for all projects having costs exceeding a minimum amount prior to the inception of the work.	Concur (P) & (C)	Notified New Department	December 8, 2004	Since the audit report was written, there was a City-wide reorganization. Fleet and Facilities Management was separated into two Divisions and new Managers were appointed to head each Division. These divisions were moved under a new General Administration Department with a new Director. Although we agree that estimates should be given, the Facilities Management Division Manager and General Administration Department Director will be responsible for improvements to this process. We have notified them of this recommendation.
29. The Budget Director should direct the Fleet/Facilities Management Bureau to develop contracts for all services provided to City departments, bureaus, or offices over a specified minimum dollar amount.	Concur (P) & (C)	Notified New Department	December 8, 2004	Since the audit report was written, there was a City-wide reorganization. Fleet and Facilities Management was separated into two Divisions and new Managers were appointed to head each Division. These divisions were moved under a new General Administration Department with a new Director. Although we agree that contracts should be developed, the Facilities Management Division Manager and General Administration Department Director will be responsible for improvements to this process. We have notified them of this recommendation.
30. The Budget Director should establish a policy to return Budget Revision Request forms that are incomplete or improperly prepared or approved and ask departments to resubmit them when completed.	Concur (P) & (C)	Implemented	June 2003	Under new management, it is now the practice of MBA to return incomplete or incorrect forms to the requesting Department. However, as a service agency, we will continue to strive to assist Departments to ensure the accuracy of information presented and processed.

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31. The Budget Director should implement an automated sequential numbering system within the Lotus Notes Budget Revision Request form to ensure a permanent and accurate record of the progress of all Budget Revision Request forms submitted.	Concur (P) & (C)	Implemented	June 2003	Recommendation was accepted and implemented
32. The Budget Director should encourage departments to reduce the number of Budget Revision Request forms they submit, for purposes of efficiency and control.	Concur with Reservations (P) Concur (C)	Implemented	Ongoing	MBA agrees that the number of Budget Revision Requests (BRR) should be kept to a minimum. New management more stringently reviews each BRR for necessity and appropriateness. However, we cannot control many of the factors that necessitate a BRR as those factors reside with Department management.
33. The Budget Director should adopt a procedure to identify all material budget items that are subject to significant fluctuation and require the appropriate City officials to provide updated information at least quarterly to consider for possible budget adjustments.	Concur with Reservations (P) Concur (C)	Implemented	Fiscal Year 2004	MBA has a new process to meet with Departments to discuss budget variations. These meetings generally occur on a monthly basis.

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<p>34. The Budget Director should require the Labor Relations Bureau Chief and the applicable Department Director to communicate labor contract amounts to Management and Budget in complete detail immediately upon reaching an agreement, with the affected departments responsible for timely filing all necessary Budget Revision Requests required by these developments.</p>	<p>Concur (P) & (C)</p>	<p>Implemented</p>	<p>Fiscal Year 2004</p>	<p>There is substantial communication between Human Resources and MBA on labor issues. HR communicates the impact of labor contract changes to MBA and other affected departments. Also, HR frequently asks MBA for assistance in analyzing the cost of changes.</p>

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