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GOT

BUDGET



CONTROLS?

Effects of Weak Budget Controls



A lack of adequate budget controls negatively impacts an organization's ability to provide services and operate programs. For example,

- The State of Arizona's failure to accurately forecast revenues has led to a projected \$800M budget deficit for FY 2003.
- State of Arizona must now make massive budget cuts to balance its FY 2002 and 2003 operating budgets. The reductions will effect many programs and departments.
- In FY 1998 Pima County violated three State laws (controls) and "illegally" borrowed \$43.6 million from local school districts to cover budget deficits. This practice exposed the County to taxpayer lawsuits.
- Lax oversight of the Detroit Metropolitan Airport's 2000 budget led to "... contract violations, cronyism, wasteful spending, and \$1.4 million of parking services overcharges to the county."



Budgeting: An Important Internal Control

Maricopa County's budget serves as an internal control in two significant ways; to establish legal limits for authorized expenditures and as a plan to help meet organizational objectives. The Board has sole legal authority to control how the County uses the public's money. By adopting the annual budget, the Board sets a maximum amount for all County spending and establishes specific amounts that can be spent for items within the overall budget.

The Board and County departments can shift spending during the year to meet changing needs if, so long as expenditures stay within the bottom line. Beginning next fiscal year, Program/Activity budgeting will allow departments to evaluate their performance in line with a "family of measures" - results, efficiency, outputs, and demand.

The budgeting function organization illustrates the important control concept of "segregation of duties."

While OMB and departments prepare and administer budgets, the Department of Finance reports and monitors results, and Internal Audit and the Auditor



**Chris Bradley,
Budget Director**

General audit results. This separation of functions helps ensure that budget results are reported completely, accurately, and objectively, which instills public confidence.

Here are questions to determine if you are making effective use of your budget as an internal control. Is my budget correctly allocated? Do I post transactions accurately and timely? Do I project revenues and expenditures? Do I identify problems and develop corrective actions? Do I review and learn from year-end results? If you cannot answer YES to all of the questions, OMB can consult with you on improving your procedures.

**By law,
expenditures
cannot exceed
total budget**

Did You Know?

During the early to mid 1990's Maricopa County experienced a severe financial crisis. This situation was largely the result of weak budget controls and unrealistic revenue forecasts. From FY 1993 through FY 1995, property tax revenues were \$22+ million less than forecasted. Vehicle license tax and sales tax revenues were also over projected for several years. To recover from this crisis, as well as prevent future occurrences, the County strengthened its budget controls and developed a more formal and conservative method to forecast revenues. These actions are prime reasons for the County's strong financial condition today, even though the State is experiencing financial hardship.

Contact Internal Audit for internal control support at (602) 506-1585