



Budget Development

Employee Benefits Processes

Budget Preparation Fiscal Years 2020 – 2022

Report Date: March 29, 2022

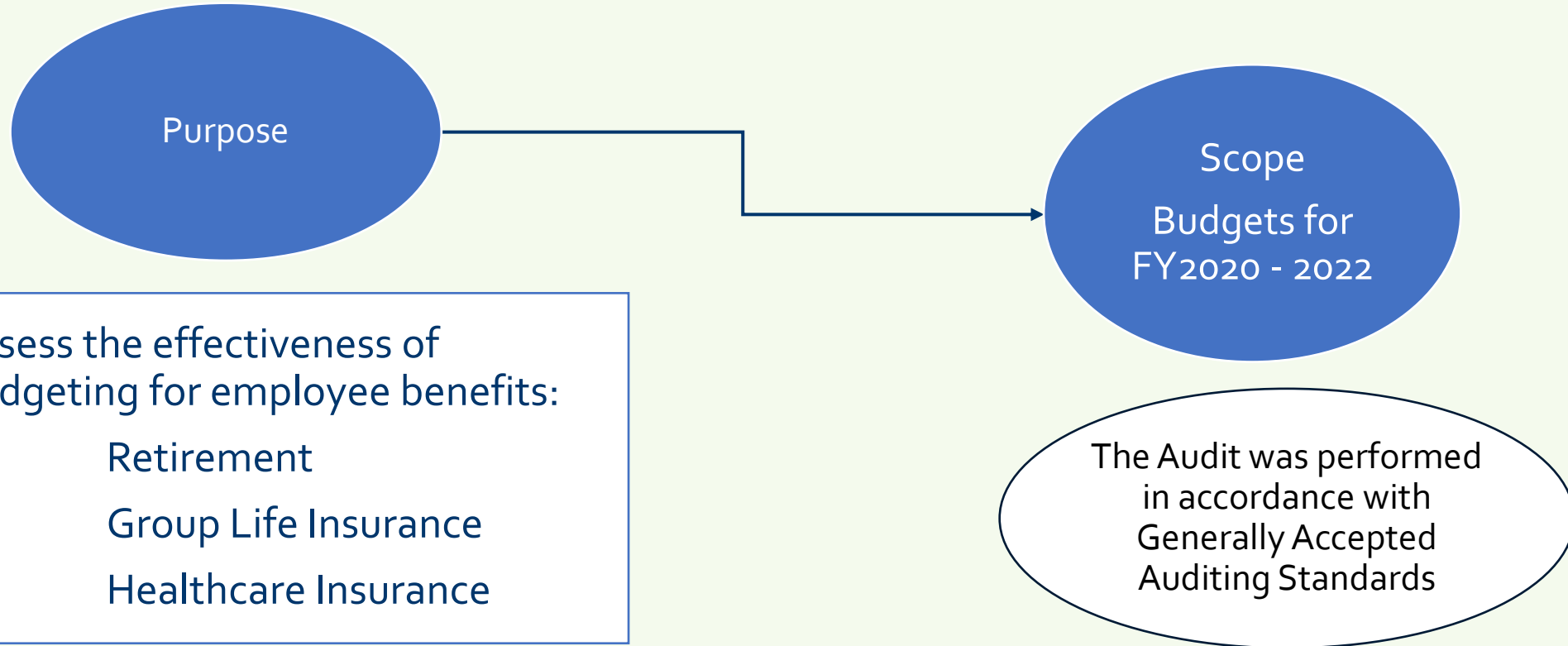
Office of the City Auditor

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Report No. 21-07

Purpose and Scope



Budgeting Process Overview

Providing employee benefits supports an engaged and productive workforce

Limited funding



Critical importance of effective budgeting process



Appropriate calculation of the individual component parts



Personnel Services FY2022 All Funds \$374M - 29%



City-provided employee benefits FY2022 \$83M - 22% of the total personnel budget

Audit Process

Area of Review

- Budget for Fiscal Year 2020, 2021, 2022
- Departments reviewed – selection based on smaller number of employees
 - City Manager
 - City Attorney
 - Elections
 - Budget and Strategic Planning
 - City Clerk
 - Real Estate Assessor
 - City Auditor

Budget to Actual

- Retirement
 - Calculation prepared for budget year
 - Calculated budget amount is the amount paid and charged to the departments – does not change during the year
- Healthcare and Group life insurance
 - Calculation prepared for budget year
 - Actual costs charged to the department are based on employee payroll data concerning coverage during the year – differs from budget estimate

Retirement

	Number of Employees (a)			Annual Budget (b) (c)		
	2020	2021	2022	2020	2021	2022
City Manager	11	11	9	\$ 266,338	\$ 287,865	\$ 271,165
City Attorney	33	32	33	625,742	623,842	681,303
Elections	5	4	4	52,927	45,924	48,919
Budget & Strategic Planning	12	20	17	186,408	329,922	281,183
City Clerk	13	13	13	163,971	165,342	181,146
Real Estate Assessor	22	22	19	258,656	270,013	251,363
City Auditor	7	9	9	102,666	136,060	147,935

(a) Source: Budget Office calculation spreadsheets - data from PeopleSoft

(b) Source: AFMS AF00103A Expenditure Budget vs Actual

(c) Actual = Budget

Healthcare Insurance (a)

	Fiscal Year	Budget	Actual	Actual over (under) Budget
City Manager	2020	\$ 68,353	\$ 90,064	\$ 21,711
City Manager	2021	92,534	87,612	(4,922)
City Manager	2022	76,678		
City Attorney	2020	310,659	293,056	(17,603)
City Attorney	2021	329,787	328,008	(1,779)
City Attorney	2022	364,829		
Elections	2020	36,897	30,372	(6,525)
Elections	2021	39,162	33,311	(5,851)
Elections	2022	35,895		
Budget & Strategic Planning	2020	82,708	123,205	40,497
Budget & Strategic Planning	2021	132,832	152,355	19,523
Budget & Strategic Planning	2022	119,968		

(a) Source: AFMS AF00103A Expenditure Budget vs Actual

Healthcare Insurance (a)

	Fiscal Year	Budget	Actual	Actual over (under) Budget
City Clerk	2020	\$ 76,233	\$ 81,662	\$ 5,429
City Clerk	2021	80,826	94,158	13,332
City Clerk	2022	104,818		
Real Estate Assessor	2020	145,768	126,011	(19,757)
Real Estate Assessor	2021	154,602	155,635	1,033
Real Estate Assessor	2022	175,159		
City Auditor	2020	71,672	88,890	17,218
City Auditor	2021	91,198	85,866	(5,332)
City Auditor	2022	94,343		

(a) Source: AFMS AF00103A Expenditure Budget vs Actual

Group Life Insurance (a)

	Fiscal Year	Budget	Actual	Actual over (under) Budget
City Manager	2020	\$ 20,586	\$ 18,415	\$ (2,171)
City Manager	2021	21,199	17,917	(3,282)
City Manager	2022	25,981		
City Attorney	2020	42,546	40,868	(1,678)
City Attorney	2021	44,695	42,734	(1,961)
City Attorney	2022	46,037		
Elections	2020	4,059	3,113	(946)
Elections	2021	4,205	3,170	(1,035)
Elections	2022	4,386		
Budget & Strategic Planning	2020	21,404	18,722	(2,682)
Budget & Strategic Planning	2021	22,915	20,851	(2,064)
Budget & Strategic Planning	2022	21,542		

(a) Source: AFMS AF00103A Expenditure Budget vs Actual

Group Life Insurance (a)

	Fiscal Year	Budget	Actual	Actual over (under) Budget
City Clerk	2020	\$ 11,937	\$ 10,723	\$ (1,214)
City Clerk	2021	10,910	11,386	476
City Clerk	2022	11,287		
Real Estate Assessor	2020	19,572	16,483	(3,089)
Real Estate Assessor	2021	20,848	17,808	(3,040)
Real Estate Assessor	2022	21,446		
City Auditor	2020	9,013	8,732	(281)
City Auditor	2021	9,289	9,312	23
City Auditor	2022	9,547		

(a) Source: AFMS AF00103A Expenditure Budget vs Actual

Unique Budgetary Characteristics of Employer-Paid Benefits

- City departments have limited control over benefits portion of their budgets – only to extent of which positions are filled
- Budget Office is solely responsible for calculating these costs for all departments – no departmental input
- Challenges:
 - Underlying data (personnel/payroll) changes throughout the year
 - Outside resources are required for the calculations
 - Actuarial data
 - Virginia Retirement System
 - Vendor provided cost information - rates

Determining Factors

Retirement	Group Life Insurance	Healthcare Insurance
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Number of employees	Number of employees	Number of employees
Salary / Wage of each Employee	Salary / Wage of each Employee	
Age of Employee	Age of Employee	
Years of Service		
		Individual Employee Insurance Coverage Selection - Plan Type and level of coverage

Conclusion and Observations

Budget Office successfully strives to make the budget process for employee benefits as accurate and equitable as possible

- Accuracy

- The most current data available is used for budget calculation considering budget preparation timeline constraints
- Processes use detailed employee payroll data to increase precision
- Processes are reasonable and appropriate

- Equity

- Discretionary (non-personnel) portions of operating department budgets are not impacted for increases in costs they cannot control
 - Retirement
 - Healthcare insurance
 - Group life insurance

Objectives and Methodology

Objectives

- To evaluate the budget development process and determine the efficiency and effectiveness of allocations and calculations of employee benefits appropriated to City departments' budgets

Methodology

- Review of policies and procedures
- Review of budget calculations and accounting records
- Inquiries of management and staff

Governmental Auditing Standards

- We conducted this performance audit in accordance with generally accepted government auditing standards. 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

Statement of Independence

- Norfolk City Code Chapter 11 states that the City Auditor is appointed by City Council and that employees under the City Auditor serve exclusively at-the-will of the City Auditor. Accordingly, the members of the Office of the City Auditor are independent of City Management and thus independent per the GAGAS requirements.

Internal Control/Data Reliability

Internal Control

- We assessed internal controls as required by GAGAS and determined the significance of internal controls to the audit objectives. We did not find significant internal control deficiencies.

Data Reliability

- We relied on data generated from the City's Advantage Financial Management System (AFMS) and certain subsidiary accounting systems for this audit. The extent of our evaluation was dependent upon the expected importance of the data to the final report, strengths or weaknesses of any corroborating evidence, and anticipated level of risk in using the data. We determined the financial information from AFMS and the subsidiary systems which was used as the basis for the external audited financial statements to be reliable and, therefore, the level of risk from using this information to be low.

We thank the Office of Budget and Strategic Planning for its cooperation and responsiveness to our requests during this audit.

If you have any questions, I can be reached at 757-409-2518 or via email at tammie.dantzler@norfolk.gov