CITY OF ATLANTA

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TO: Sherman Bryant, Oracle ERP Program Director

FROM: Leslie Ward, City Auditor

DATE: September 1, 2005

SUBJECT: Oracle ERP Target Process Blueprint

This memo includes our preliminary recommendations on the Oracle ERP Target Processes for the city's Oracle Enterprise Resource Planning (ERP) phase 1 implementation. The focus of this memo is a review of the Oracle ERP Target Process Blueprint document. This document was developed to ensure that the software, process, enhancement, and reporting levels for the ERP project have been properly defined and to identify if any further changes are necessary to support the envisioned ERP implementation.

Our review has included these methods:
- Reviewing the gap analysis documents and analyzing gaps with manual processes solution recommendations
- Reviewing the ERP target process blueprint document and comparing information with the functional workbook analysis and gap analysis documents
- Reviewing documentation related to Oracle security and control
- Interviewing city staff and consultants regarding the proposed new processes and gap analysis solutions
- Identifying any changes or updates to the gap analysis manual process solutions

The work has been conducted in accordance with government auditing standards for performance audits.

Our recommendations focus on the gaps that have proposed manual procedures (as of September 1, 2005) as solutions. These processes will not be completely automated in Oracle because doing so would require costly customization. We believe these suggestions will enhance the controls over these processes. All 10 recommendations pertain to gaps identified in the financial modules. The gaps are listed in bold text and are followed by our recommendations.

1. **Change Asset Type to CIP**
   Standard functionality in Oracle transfers cost lines from projects to fixed assets and places the costs in the "fixed assets prepare mass additions" table with the asset type listed as capitalized. The city wants the asset type changed to CIP. The steps needed to change an asset type to CIP instead of capitalized, when cost lines are transferred from projects to fixed assets, should include the following controls: a) a level of supervisory review to ensure that the asset type is entered correctly; b) limit access to change the asset type to one or two staff; c) generate and review weekly asset reports to identify asset type errors.

   Comments: Agreed. Security will be limited to who can assess the Prepare Mass Additions screen where the Asset Type field is located. Oracle standard functionality does not build security on the specific Asset Type field.

2. **Accounts Payable Retainage**
   Oracle cannot automate the retainage process. To ensure efficient and effective processing, the city should restrict the ability to process retainage invoices and payments to a single individual (with a trained backup person). A contract showing retainage amount should also accompany all retainage invoices. Furthermore, weekly retainage reports should be generated and reviewed to provide additional assurance that retainage payments are accurate and done in a timely manner.

   Comments: The Accounts Payable Team is recommending two-way matching (Purchase Orders) together with workflow approvals. This will streamline the processing of all invoices, including retainage invoices. In the proposed centralized accounts payable environment, retainage invoices will not be readily identifiable. Retainage procedures will be defined to ensure that all payments of invoices with respect to retainage will be supported by appropriate documentation and an approval workflow process. Retainage reports have been identified for development to facilitate the tracking of retainage invoices. In a centralized Accounts Payable environment, I am not sure how realistic it is to have only one individual responsible for entering retainage invoices.

3. **Automatic Hold on Employee Advances**
   The Oracle system cannot automatically place a hold on an employee expense account with outstanding expense advances. To ensure that there are no outstanding advances prior to approval, the city should require both the department and accounts payables to perform a query in Oracle to review expense information for all employees requesting advances to detect any outstanding advances. The requesting department should make a notation on the expense request that a check was performed for outstanding advances prior to sending the request to accounts payable. Lastly, accounts payable should generate a monthly report on advances overdue 30 days or more, distribute it to all departments, and request immediate processing of overdue advance documents to more effectively manage outstanding advances.

   Comments: Agreed

4. Workflow Routing

The City has complex routing requirements to route project-related and service-related invoices through an approval process. To avoid overdue or late payments, the city should set a time limit for invoices to be approved by the department and returned to accounts payable for processing.

Comments: Agreed. Time limits will be set as part of the approval workflow of accounts payable invoices.

5. Customer Refunds

Processing customer refunds in Oracle requires a two-step process. Step one is to write off the receivable, and step two is to set up the customer as a vendor in accounts payable in order to remit payment to the customer. These tasks should be performed by two different individuals to maintain proper separation of duties. Furthermore, it should be noted in Oracle that the write-off was due to a customer refund so that it can be distinguished from write-offs for receivables deemed uncollectible.

Comments: Agreed.

6. Milestone Functionality *(Procurement)*

The process of notifying users of events and milestones (e.g. insurance premium dates, lease renewal dates, etc.) should be automated outside of Oracle (since it cannot be done in Oracle) to ensure due dates and dead lines are not inadvertently missed.

Comments: Reports will be run upon request or as scheduled to monitor milestones.

7. Property Definition *(Procurement)*

The Oracle fixed assets and property manager modules are not integrated. Property, even though defined in Fixed Assets, will have to be redefined in the property manager module. To ensure that the property information is accurate in property manager, the city should match property information against information in the fixed asset module.

Comments: Agreed. The Fixed Asset Number will be incorporated in the naming segment in the Property Module.

8. Lease Purchase Order *(Procurement)*

Oracle is unable to create purchase orders for a lease so that funds can be encumbered in the general ledger module. For better control and accuracy, manual encumbering and tracking of lease payments should be restricted to one or two individuals. The lease account and payment amounts should be reconciled at least monthly for accuracy and for monitoring of the lease termination date.

Comments: TAR was issued to determine if Oracle will support customization to integrate Property Manager and Accounts Payable. Work-around solution includes processing recurring invoices.

9. Abstract and User Responsible Fields *(Procurement)*

Oracle cannot place default values in the Abstracted By and User Responsibility fields, consequently the incorrect person could be entered in the fields. The person selected would then have access to the property manager module. To maintain tight security and avoid giving unauthorized or too much access to users, these fields should be restricted to only a few individuals.

*Comments: Oracle **does** place default values in the Abstracted By field only. To safeguard against unauthorized use of this module, limited access will be granted to both Abstracted By and User.*

10. Collection Late Payment Fees if Fixed Amount
Oracle cannot calculate interest charges or late payment fees on accounts receivable entered directly into the accounts receivable module. These charges or fees have to be entered manually. To ensure that these charges and fees are applied to all of the appropriate delinquent accounts, employees should periodically run Oracle aging reports to check that all overdue accounts have been properly assessed the correct fees and charges.

Comments: Oracle cannot calculate interest charges or late payment fees based on a fixed fee rate. However, interest charges or late payment fees can be calculated based on a percentage of an outstanding customer invoice balance. The Team has identified procedures whereby, if applicable, additional lines on an invoice or debit memos will be entered for customers requiring a fixed interest/late payment fee.

We need written responses to these recommendations no later than **September 6**. We appreciate the opportunity to provide feedback on phase I of the Oracle ERP implementation and would like to thank the project team for their courtesy and cooperation with our review. We look forward to continuing this constructive relationship throughout the implementation process. Please feel free to contact Gerald Schaefer at 404/330-6876 if you have questions or would like to discuss further. You can reach me directly at 404/330-6804.

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