



CITY OF ATLANTA

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TO: Sherman Bryant, Oracle ERP Program Director

FROM: Leslie Ward, City Auditor

DATE: August 15, 2005

SUBJECT: Oracle To-Be Processes

This memo includes our preliminary recommendations on design of controls for the city's Oracle Enterprise Resource Planning (ERP) phase 1 implementation. We have reviewed the proposed to-be processes that the city envisions using when the ERP implementation is completed.

Our review has included these methods:

- Attending the Conference Room Pilots (CRPs)
- Reviewing the to-be process workbooks
- Reviewing the CRP scenarios and scripts
- Reviewing best practice materials
- Reviewing documentation related to Oracle security and control
- Interviewing city staff and consultants regarding the proposed new processes

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

To the best of our knowledge, our recommendations can be implemented without customization of the Oracle system during phase 2. We believe these suggestions will enhance the controls within and around the new system. The recommendations are organized by the three functional areas. A few recommendations, however, apply to multiple functional areas.

Human Resources and Payroll – these 14 recommendations address controls over positions, payroll, tax reporting, and benefits.

1. Temporary positions should be set up in Oracle with both a "to" and "from" effective date to help ensure that temporary positions are not occupied past their intended dates.

Comments: Yes, temporary positions will be setup in Oracle with both a "to" and "from" effective date to help ensure that temporary positions are not occupied past their intended dates.

2. The city should create an employee termination checklist in Oracle to ensure terminated employees return all city equipment, access cards, and pay outstanding debts (e.g. advanced leave), etc. when they leave city employment.

Comments: Yes, employee termination checklist will be created in Oracle to ensure terminated employees return all city equipment, access cards, and pay outstanding debts (e.g. advanced leave), etc. when they leave city employment.

3. When an employee is terminated, access to Oracle should be denied as soon as the termination is effective. Currently, access to PeopleSoft has to be changed or removed manually, which sometimes does not occur until long after the termination.

Comments: Yes, when an employee is terminated, access to Oracle should be denied as soon as the termination is effective. This is however contingent upon how soon the communication reaches HR.

4. Oracle allows records to be changed through the use of either the "update" or "correction" key. The use of the "correction" key removes the previous record and does not track who made the change. Furthermore, this information is not kept in Oracle's audit trail. Given these consequences, use of the "correction" key should be strictly limited to as few users as possible and only in situations in which the correction applies retroactively. The city should adopt and strictly enforce these limitations.

Comments: The city should adopt and strictly enforce these limitations.

5. Oracle should be configured to require hourly employees to submit a timecard to be paid. For these employees, the "time card required" field should be checked as a default. Any exceptions to this rule should be determined beforehand so that Oracle can be properly configured.

Comments: Yes, team is planning to enable the time card required field to YES.

6. Social Security Numbers (SSN) are not a required field in Oracle; however, the city should enter the SSN for each employee. The city should require use of the Employer Verification Service to verify SSN and use Oracle to record and track compliance.

Comments: The city should require use of the Employer Verification Service to verify SSN and use Oracle to record and track compliance.

7. Oracle should be configured to prohibit exempt employees from receiving overtime pay.

Comments: Yes, the team is planning to configure Oracle to prohibit exempt employees from receiving Overtime Pay. However there are few salaried employees who receive Overtime Pay. For such employees this rule will be overridden.

8. Oracle should be configured to prevent negative leave balances.

Comments: This will be treated slightly differently. If a person's leave type is approved and he does not have any leaves to his/her credit) it will be recorded against Advanced Sick leave and not under Vacation or Sick Leave. However if the leave type is not approved it will be treated as Leave without pay.

9. Oracle should be configured to identify employees working on F-1, J-1, M-1, and Q-1 visas and comply with the different Medicare withholding rules that apply to these individuals.

Comments: Yes, the team is planning to configure Oracle to to identify employees working on F-1, J-1, M-1, and Q-1 visas and comply with the different Medicare withholding rules that apply to these individuals.

10. Tuition reimbursement (under the current agreement with Georgia State University) should be tracked in Oracle to ensure that the city can monitor this benefit for (1) potential tax reporting requirements and (2) potential repayment requirements if the employee leaves city employment.

Comments: The team is planning to track Tuition reimbursement in Oracle to ensure that the city can monitor this benefit for (1) potential tax reporting requirements and (2) potential repayment requirements if the employee leaves the City employment.

11. The city should ensure that Oracle is configured to track taxable benefits received by employees, such as personal use of city-owned vehicles and cell phones.

Comments: Yes, the team is planning to configure Oracle to track taxable benefits received by employees, such as personal use of city-owned vehicles and cell phones.

12. If the city continues its policy of a 90-day waiting period before it pays the employer's share of employee health insurance premiums, additional controls should be established over any exception to this policy. The advanced benefits module has a field that allows someone who is ineligible for benefits to receive benefits, if the "allows override" field is enabled. This feature can be used to grant employees benefits during their first 90 days with the city, but the override cannot be linked to payroll to ensure that the full cost is being withheld. The city should use an exception report to review periodically the health insurance premiums being withheld for any employees for whom the override feature is in effect. Furthermore, access to this field should be restricted to only a few users.

Comments: Concur.

13. The choices for benefits eligibility are eligible, ineligible, and "eligible or ineligible." The choice of "eligible and ineligible" should be disabled.

Comments: Yes the choice of "eligible and ineligible" will not be disabled but it can be disabled if there is no requirement to utilize it.

14. For temporary employees, Oracle should default to ineligible for benefits. Any exceptions to this rule should be determined beforehand so that Oracle can be properly configured.

Comments: Yes for temporary employees, Oracle will default to ineligible for benefits.

Financial – these 13 recommendations address controls over accounting, budgeting, payables, receivables, fixed assets, grants, investments, and debt issuance.

1. The sub-ledgers in Oracle should be reconciled against the Oracle general ledger at least monthly.

Comments: The City will have a monthly closing process schedule which will detail the reconciliation procedures that need to occur on a monthly basis between the sub-ledgers and the General Ledger.

2. The city should enter only the accounts from the State's Uniform Chart of Accounts that it actually uses. Entering unnecessary accounts will hamper Oracle's response time and thus constrain system efficiency.

Comments: The City is planning on using on accounts valid for the City's business purposes.

3. Only one or two staff should have access to update the chart of accounts, once it is entered in Oracle. The same employee(s) should not have access to both disable and re-activate accounts.

Comments: Oracle standard functionality allows the same user the ability to "enable" and "disable" accounts by way of a check box. Security will be setup to limit access to the account maintenance screens to a select individuals for the City as whole.

4. Attachments posted to the general ledger should be read-only to prevent the documents from being altered.

Comments: Standard functional in Oracle does not allow an attached document to be modified. However, an attached document can be deleted. The Team will explore system settings that will prevent attached documents from being deleted.

5. Prior period adjustments to the general ledger should require at least two levels of approvals before the adjustments are posted.

Comments: The processes will be adjusted to require an additional level of approval.

6. The general ledger module should be configured to apply the unique document number feature to journal entries. This feature automatically assigns the next available journal entry number in sequence and ensures that all journal entries are accounted for.

Comments: The Team is planning to implement this functionality.

7. Budget controls should be set to default to "absolute" to prevent the budgeted amounts from being overspent.

Comments: The Team is planning implement budgetary controls with absolute setting for all budgetary accounts. Standard Functionality defaults Budgetary control settings to be "None". However, access to creating a budget forms in Oracle will be restricted to select individuals for the City as a whole.

8. Only U.S. currency should be enabled in Oracle.

Comments: The Team is planning to only enable USD as the currency.

9. Users should be trained to avoid duplicate postings, and reports should be run and reviewed regularly to identify potential duplicate postings. Oracle cannot prevent duplicate postings; through the Applications Desktop Integrator (ADI), a user can inadvertently post the same journal entry to the general ledger more than once.

Comments: User procedures will be put in place to control the uploading of ADI journals to General Ledger. In addition, all journals coming from ADI are subject to the same approvals routings as regular journals. Only select individuals will have access to ADI.

10. The same employee(s) should not have access to both create and execute bank transfers.

Comments: The Team agrees with this recommendation. The Team is planning to segregate these two functions.

11. Manual processes and procedures should be done to direct all refunds to be deposited into Accounts Payable to ensure that the vendor history information is maintained.

Comments: The Team is planning to implement this process.

12. Manual policies and procedures should be done to instruct all individuals entering receiving items to enter serial number, descriptions and tag number for accurate tracking of assets.

Comments: User procedures will be developed to help ensure that users have proper training with regard to the receiving of assets. In addition to serial number, description, and tag numbers, the team is exploring additional data (i.e. VIN #) that can be captured during receiving. We are working with the Procurement Team to firm up this process.

13. Access to write off accounts receivable should be restricted to a few users and require at least one level of supervisory approval.

Comments: The Team is planning to limit write-off capability to a few users and also establish approval limits for users to require two levels of approval.

Purchasing – these 6 recommendations address the procurement process, from bid and contract documents to receiving to document retention.

1. Oracle should be set up for blind receiving to ensure an accurate count of services and items actually received.

Comments: iProcurement will allow you to turn "on" or "off" the blind receipt function. Blind receiving will be turned "on" (activated) in the City's ERP System

2. Requisition numbers, purchase order numbers, and bid numbers should be computer-generated with intelligence, for both tracking and error prevention.

Comments: Purchase Orders will have intelligence similar to current process. Bid Numbers will have intelligence similar to current process. Requisition Intelligence will be limited to on-screen in Oracle not on requisition.

3. The Contract Terms Library Module should be implemented to facilitate consistency and inclusion of required provisions in bid and contract documents. The module also will facilitate status tracking and maintain a repository of these documents.

Comments: The Contract Terms Library will be configured to allow for consistency and inclusion of required provisions in bids and contract documents. Additionally, it will be repository for these documents. However, the Purchasing Module will be used for status tracking.

4. Required receiving information should include condition of goods received from vendor, in order to track defective items and other problems.

Comments: If damage goods are visible at time of receiving, goods will not be received. Therefore, there is not a need to note damage receipt at this time. If damage goods are discovered after receipt, goods will be returned. There are "Return Codes" in Oracle that the Receiving Clerk must populate to state reason for return.

5. Oracle should be configured to view and track Minority Business Enterprise and other supplier classification codes for Federal and State reporting requirements.

Comments: This information will be tracked via Business Classification Codes.

6. The city should review its document retention policies and practices in light of Oracle implementation. Because system entry of purchase, payment, and receipt transactions will occur from several locations, responsibility for retention and storage of supporting documents should be specified clearly. User departments will not have to submit documents to Finance or Procurement in order to process transactions, as they do now. Federal and state laws require the retention of purchasing, payment, receipt and supporting documentation for a specified number of years.

Comments: This will require a business policy decision that requires input from various departments, i.e., DOP, DOL, DOF and selected user agencies.

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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