



# CITY OF ATLANTA

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**TO:** Sherman Bryant, Oracle ERP Program Director

**FROM:** Leslie Ward, City Auditor

**DATE:** July 19, 2006

**SUBJECT:** Ongoing review of Oracle implementation phase 2: HRMS, Financial and Procurement applications round 3 CRPs

We are writing this memo to make recommendations for implementing controls in the city's Oracle Enterprise Resource Planning (ERP) system. This memo focuses on controls and processes associated with the Human Resources Management System (HRMS), financial, and procurement applications.

We conducted this audit in accordance with generally accepted government auditing standards except for completion of an external peer review.<sup>1</sup> Our methods included:

- Attending the third round of Conference Room Pilots (CRPs) on the HRMS, financial, and procurement applications held from May 19, 2006, through June 20, 2006.
- Executing CRP test scripts.
- Interviewing city staff and consultants regarding Oracle functionality and the city's "to-be" processes

The purpose of CRPs is to allow city staff to review the configuration of the Oracle applications. For the CRP to be effective, city staff should review the business processes and system designs presented and identify needed changes. After the CRP is completed, Oracle consultants make these changes and hold another round of CRPs to review the revised configuration. Consequently, in each subsequent round of CRPs, the system configuration and set-ups should become closer to the system that the city will eventually use.

We released a memo on the second round of CRPs on HRMS applications in April 2006. At the time, there were no CRPs held for the procurement and financial applications. As a result, we have more recommendations directed at the procurement and financial processes and controls

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<sup>1</sup> Government auditing standards require audit organizations to undergo an external peer review every three years. A peer review is planned for 2006.

in this memorandum. In short, during the third round of CRPs, the HRMS applications were closer to final configuration than the other applications.

We've organized recommendations by functional area. Many of our recommendations relate to processes that will not be completely automated in Oracle. The implementation of these recommendations will have to be outside of the ERP system and are categorized below as "process changes." The remaining recommendations can be implemented within the ERP system and are identified as "system controls."

## **Procurement**

The procurement CRP covered the entire requisition to pay process. It included how the city will acquire goods and services through various means such as: field purchase orders, invitation to bid, request for proposals, and receipt of these goods and services. The procurement CRP also included the process for assembling, evaluating, and executing contracts. Lastly, the CRP included the process for inputting lease abstracts in the property management application.

### *Process Changes*

1. The city code requires (insofar as it is practicable) no less than three suppliers (vendors) be invited to a sourcing event. The city should establish a policy requiring city buyers to document justification within the Oracle system when the city cannot obtain quotes from three suppliers.

*Comments: Agree. This justification can be inserted in "Note to Buyer" section of the Form.*

2. Oracle allows buyers to change the default purchase order rules, which require a 3-way match of purchase order, invoice, and receipt. Disallowing buyers this functionality would require a customization. Therefore, the city should establish a policy that prohibits buyers from changing the 3-way match rule. The only exception to this rule should be for construction purchase orders, which have a 2-way match because of retainage requirements.

*Comments: Suppliers will be set up as 2-way and 3-way. Suppliers who provided construction related services i.e., general contractors, construction services, professional related construction services, etc. will default to 2-way. Buyers may be required to change the default to 3-way for a supplier for a given purchase orders if the supplier is providing goods against the purchase order.*

3. The city should establish a policy requiring formal contract (request for proposals and invitation to bid) awardees be registered in iSupplier. All other suppliers should be highly encouraged to use iSupplier. Having suppliers use iSupplier will save the city money by reducing the amount of processing done by city employees to pay suppliers.

*Comments: Agree.*

4. The city should establish a policy for formal procurement contracts requiring suppliers to submit an electronic copy of their proposal along with the paper copy. Having an electronic copy would save the city time by not having to scan hard copies into Oracle.

*Comments: Agree.*

5. In cases where the receiver of goods does not have access to a computer, the city should establish a policy requiring Oracle users who enter receipt information on behalf of the receiver to specify the name of the employee who actually received the goods and other pertinent information into the comments field of the receipt document.

*Comments: Agree.*

6. In instances where the city has to enter supplier information into iSupplier, the city should establish a quality control policy for entering this information into the system to decrease the likelihood of protests due to data entry errors.

*Comments: Agree.*

7. Once a contract has been approved by all the approvers in the approval hierarchy, the buyer cannot change the effective date of the contract. If the approval process took longer than expected (which it often does); the contract would have to go through the approval process again for the effective date to be changed. To avoid this, the city should have the final approver, the City Clerk or her designee; change the effective date to correspond with the date she made her approval. This will allow the contract to have an accurate effective date and avoid having to send the contract through the approval process a second time.

*Comments: Agree. DOP recommends that the buyer becomes the final person in the approval flow. This allows the buyer to insert the contract execution date. The buyer's signature will not show on the printed executed contract; however, the action history will show the date that the buyer executed the contract.*

### *System Controls*

8. Departmental buyers should be restricted from adding lines in the sourcing application that are not related to any requisition because they must specify the charge account for the line—a function that should be limited to centralized buyers.

*Comments: Agree. The add line button will be removed from the departmental buyer's responsibility.*

9. Response rules under controls in the sourcing application allow the buyer to restrict request for quotes (RFQ) to only invited suppliers and manually close before the RFQ close date. The city should develop templates to reduce the likelihood of these errors.

*Comments: Agree.*

10. The field that contains the RFQ event types (e.g. field purchase order, invitation to bid) should be a required field since the Department of Procurement will monitor activity based on these events.

*Comments: Agree.*

11. Requisition numbers, purchase order numbers, and bid numbers should be computer generated without intelligence because Oracle does not support intelligence numbering without customization. This recommendation supersedes the Purchasing recommendation #2 from the August 15, 2005, audit memo: *Oracle To-Be Processes*. The consultants formerly used by the city led us to believe that numbers with intelligence did not require customization of Oracle. Since numbering with intelligence requires customization we rescind the recommendation we made in August 2005.

*Comments: Agree.*

## **Financial**

The financial CRP included how to record and depreciate fixed assets, closing accounting periods, budgeting, processing accounts receivable, maintaining the general ledger, performing bank reconciliations, running reports, and expensing and tracking projects and grants.

### *Process Changes*

12. When the city goes live, a centralized unit within the Department of Finance should be responsible for performing all of the city's bank reconciliations and closing accounting periods.

*Comments: The Department of Finance would like to have a centralized group responsible for bank reconciliations and a separate group responsible for closing accounting periods.*

13. The Department of Finance should ensure that the recommended external audit adjustments are accounted for before the city begins to use Oracle.

*Comments: Agree with recommendation.*

14. The city should record the location of fixed assets in Oracle. The location should be recorded with enough detail (e.g. floor and suite) so the assets can be located when needed.

*Comments: The Department of Finance is in agreement with the above recommendation for all capital assets that cost is greater than or equal to \$5,000. The Department will be glad to work with Internal Audit on developing categories of trackable assets (i.e. computers).*

15. The city should establish a policy that prohibits departments from purchasing fixed assets through a field purchase order (FDPO). Departments can make purchases up to \$20,000 through a FDPO. However all fixed assets need to be tracked by the Department of Finance and fixed assets costing \$5,000 or more need to be properly capitalized. Departments can use FDPOs to purchase fixed assets without Finance's

knowledge or approval, which could lead to inadequate tracking and accounting of the assets.

*Comments: While Department of Finance is in agreement with this recommendation, this will have to be addressed by the Department of Procurement.*

*Steering Committee Comments: See response in the attached memorandum.*

16. Adjustments to sub-ledger journal entries should take place in the sub-ledger application where the journals originated. The adjustments should not be posted directly to the general ledger. If the adjustments are posted directly to the general ledger then reconciling the general ledger to the sub-ledger applications will be impractical if not impossible.

*Comments: Agree with recommendation.*

17. The city should require that customers register themselves in iReceivables rather than having city staff do this. Having customers register themselves will save the city work.

*Comments: Agree with recommendation.*

18. When processing credit memos, the city should apply the credit memo against the appropriate purchase order to ensure that the refunded amount is applied against the proper account and to the supplier's Form 1099.

*Comments: Agree with recommendation.*

19. The city should mask bank and credit card account numbers from most city users by limiting this access in their user responsibility. Only a few users in a centralized unit should be allowed to view this information.

*Comments: Agree with recommendation.*

20. The city should record the reason for issuing debit memos in either a comments field or a descriptive flexfield within the Oracle accounts receivable application.

*Comments: Agree with recommendation.*

#### *System Controls*

21. Oracle allows tolerance limits to be set for invoices on either price, quantity, or a combination of both. The tolerance limit allows an invoice that does not match a purchase order exactly to still be paid. The city should configure Oracle not to allow any tolerance limits for quantity.

*Comments: While Department of Finance is in agreement with this recommendation, this will have to be addressed by the Department of Procurement.*

*Steering Committee Comments: See response in the attached memorandum.*

22. The city is going to allow dynamic insertion of account segments. To prevent invalid account segments from being entered in Oracle, the city should set up detailed cross validation rules.

*Comments: Agree with recommendation.*

23. To prevent someone from approving his or her own journal entry the city should configure Oracle as follows: 1) for manual journal entries, have the journal approval box enabled, and 2) for automatic journal entries, have the self-approval profile set to "no".

*Comments: Agree with recommendation.*

24. To the extent possible, the same employees should not have the responsibility to issue purchase orders and the responsibility to receive goods. These duties should be separated and not done by the same employee in a single transaction.

*Comments: The Department of Finance is unaware of this functionality. If this functionality exists, the Department of Finance is in agreement with this recommendation. However, this will have to be addressed by the Department of Procurement.*

*Steering Committee Comments: See response in the attached memorandum.*

25. All purchase orders should come from approved requisitions.

*Comments: While Department of Finance is in agreement with this recommendation, this will have to be addressed by the Department of Procurement.*

*Steering Committee Comments: See response in the attached memorandum.*

26. The city should limit the use of direct pay to procure goods or services. In instances, where direct pay is used it should be sent through an electronic workflow for approval.

*Comments: Agree with recommendation.*

27. Oracle allows dunning letters to be generated on either a scoring system or an aging system for overdue accounts. The aging system should be used since all overdue accounts are treated the same.

*Comments: Agree with recommendation.*

28. The city needs to ensure that all projects are entered into MARS-G before MARS-G data is converted to Oracle. Currently, the city is tracking some projects informally.

*Comments: The Department of Finance will be glad to assist Internal Audit and user departments with developing of a procedure to enforce this recommendation.*

29. The "Allow Adjustments to Paid Invoices" box should not be enabled for grants and projects staff. This feature would allow grants and projects staff to correct mistakes if expenditures are posted to the wrong project or grant; but also allows staff to transfer expenditures between projects and grants after they have been paid. If expenditures are posted to the wrong account in error, they should be sent to accounts payable to be corrected.

*Comments: The Department of Finance is in agreement with the recommendation. Disabling this functionality also affects adjustments made within the Accounts Payable Division. Oracle is recommending if invoice adjustments need to be made in the Accounts Payable Division, the before mentioned box would need to be enabled to make the adjustment and disabled after the adjustment has been made.*

## **HRMS**

The HRMS CRP included processes covering hiring and terminating employees, paying employees, granting employees benefits, collecting time on employees and accounting for this time to the proper account, and registering employees for training.

### *Process Changes*

30. When Oracle goes live, the city wants **all** city employees to have a work e-mail address to use the human resources self-service feature. Since a significant number of city employees currently do not have access to e-mail the city should develop a plan to ensure that all city employees have e-mail access before the ERP system is fully implemented.

*Comments: DIT will develop a plan and implement in phases to ensure that all city employees have a work email address. The plan will include: identifying employees who do not have email addresses; determining system and network capacity; establish a timeline for phasing in all City employees. For employees without a computer or appropriate access, computer workstations will be available in designated areas.*

31. The city should implement a garnishment management system and deductions payment system. Such a system will save the city time and money by reducing the number of interfaces that need to be done between Oracle and other systems and by reducing the number of checks that need to be issued by consolidating payments. Such a system can be implemented without requiring Oracle to be customized.

*Comments: The City has approved the purchase of the garnishment management system and deductions payment system and is pursuing negotiation with the vendor.*

32. The city should use the labor distribution application to distribute payroll costs to the proper projects and grants. Oracle identified this process as a gap since it could not be met with standard Oracle functionality. The city is considering not addressing it to reduce implementation costs, but the benefits of capitalizing payroll costs to the proper project or grant appear to outweigh the short-term cost reduction.

*Comments: Labor distribution has been reconsidered and included in the City's inventory of gaps.*

### **Previous Recommendation**

In our November 2005 audit report: *Pre-Implementation Review of the ERP System*, we recommended that the city: "Observe the 90-day waiting period for health benefits, and discontinue the practice of providing earlier coverage to employees who pay the full cost." The city agreed with the recommendation and responded: "No exceptions to the 90-day period will be allowed." City staff recently told us that the decision to discontinue the option for employees to receive benefits during the 90-day waiting period established in the city code has not been finalized. The CRP outlined how to grant benefits to employees during the 90-day waiting period. The process required overriding several system controls.

33. We continue to recommend that the city discontinue the practice of providing early benefits coverage to employees who pay the full cost.

*Comments: Disagree. The Department of Human Resources would still like to continue offering new hires the opportunity to enroll in an insurance program with coverage during the 90-day waiting period provided the employee pays the full cost. In the August 15, 2005, audit memo: Oracle To-Be Processes: Human Resources and Payroll recommendation #12, it was recommended that "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." DHR accepted and agreed with this recommendation. The memo also recommended that "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." The DHR prefers this course of action over discontinuing the practice of providing early benefit coverage to employees who pay the full cost. As such, DHR concurred with this recommendation.*

*Steering Committee Comments: See response in the attached memorandum.*

### **Change Management**

While attending the CRPs, we noted that many of the invitees did not attend and some invited departments did not have an employee present. Overall, 42% of the invitees attended the financial CRP, 37% attended the HRMS CRP, and 33% attended the procurement CRP. A complete breakdown by each session is attached. (See schedule 1). A major objective of the CRP is to validate and refine the set-ups in the Oracle applications to ensure that the applications support the city's business processes and requirements. If departments are not present at the CRP, their staff cannot comment on whether the proposed configurations will meet their needs. After the configuration is complete it will be much more costly and time consuming for the city to change and doing so will likely delay ERP implementation. Poor attendance and participation in the CRPs severely limit the city's success of timely ERP implementation.

34. The change management team should review the list of invitees and ensure that appropriate staff attends the CRPs. The team should ensure that all appropriate departments are represented.

*Comments: The Change Management Team agrees that it is imperative to have participation of end-users in the CRPs. Department heads, change management coordinators and staff identified by the functional leads were all notified of the CRP dates, times and locations. The Change Management Team will continue updating Cabinet members and soliciting input and participation of end-users. Change coordinators will begin identifying end-users for future CRPs and access to the Sandbox, which should be available late August or September.*

*Steering Committee Comments: See response in the attached memorandum.*

Please provide written responses to these recommendations no later than **July 26**. We appreciate the opportunity to provide feedback on phase 2 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.

Distribution:

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# Schedule 1

Financial CRPs						
CRP session	CRP description	Invited	Invitees attending	Percent attending	Total attendees*	Invited departments not attending (in alphabetical order)
5.22.06	Customer invoice to cash	42	19	45.2%	28	Corrections, Fire, Judicial, Law, Parks, Planning, Police
5.23.06 am	Customer invoice to cash	19	15	78.9%	19	All departments invited attended
5.23.06 pm	Month end close	19	10	52.6%	21	All departments invited attended
5.24.06	Customer invoice to cash	19	14	73.7%	24	Watershed
6.1.06	Receipts to assets	21	10	47.6%	22	Corrections, Executive, Fire, Planning, Police, Procurement, Public Works
6.5.06	Assets to depreciation	21	8	38.1%	14	Corrections, Executive, Fire, Planning, Police, Procurement, Public Works
6.6.06	Plan to project approval	25	6	24.0%	32	Parks
6.7.06	Award to project budget	25	9	36.0%	33	Parks
6.8.06	Project execution to asset	25	8	32.0%	23	Parks
6.12.06	Plan to project approval	28	16	57.1%	32	Fire, Parks
6.13.06	Project expenditures to review	28	13	46.4%	28	Fire, Police, Public Works
6.14.06 am	Maintain general ledger	6	5	83.3%	19	All departments invited attended
6.14.06 pm	Journal processing/ADI	48	12	25.0%	26	City Council, Ethics, Fire, Human Resources, Information Technology, Judicial, Law, Parks, Planning, Police, Procurement
6.15.06 am	Period end, bank reconciliation	18	6	33.3%	24	All departments invited attended
6.15.06 pm	Report and inquiry	46	10	21.7%	30	Corrections, Executive, Fire, Information Technology, Judicial, Police, Procurement, Public Works
6.19.06 am	Supplier invoice to payment	35	14	40.0%	43	Executive, Fire, Planning, Police
6.19.06 pm	Supplier invoice to payment	44	23	52.3%	31	Parks, Planning, Police
6.20.06 am	Supplier invoice to payment	39	19	48.7%	42	Executive, Human Resources
6.20.06 pm	Supplier invoice to payment	40	14	35.0%	32	Executive, Fire, Human Resources, Parks, Watershed
	<b>Total</b>	<b>548</b>	<b>231</b>	<b>42.2%</b>	<b>523</b>	

HRMS CRPs						
CRP session	CRP description	Invited	Invitees attending	Percent attending	Total attendees*	Invited departments not attending (in alphabetical order)
5.30.06 pm	People to paycheck	23	7	30.4%	30	Fire, Police, Public Works
5.31.06 am	Recruit to hire	23	10	43.5%	21	All departments invited attended
5.31.06 pm	Termination to payroll	23	9	39.1%	21	Police, Public Works
6.1.06	Compensation to compete	23	6	26.1%	24	Public Works
6.5.06	Benefits to payroll	7	5	71.4%	21	All departments invited attended
6.6.06 am	Time collection to payroll	11	8	72.7%	29	All departments invited attended
6.6.06 pm	Payroll to payment	15	4	26.7%	16	All departments invited attended
6.7.06 am	Payroll to accounting	18	1	5.6%	17	Finance
6.7.06 pm	Learn to develop	7	5	71.4%	25	All departments invited attended
	<b>Total</b>	<b>150</b>	<b>55</b>	<b>36.7%</b>	<b>204</b>	

Procurement CRPs						
CRP session	CRP description	Invited	Invitees attending	Percent attending	Total attendees*	Invited departments not attending (in alphabetical order)
5.19.06	iSupplier	4	3	75.0%	11	Finance
5.22.06-5.23.06	Field purchase order	20	8	40.0%	40	Aviation
5.24.06-5.25.06	Small purchase order	20	11	55.0%	31	Fire, Watershed
5.30.06-6.1.06	Blanket purchase order	20	6	30.0%	29	Executive, Fire
5.31.06	Contracts	23	2	8.7%	14	Executive, Law
6.5.06-6.6.06	Invitation to bid-goods	23	6	26.1%	26	Fire
6.7.06	Invitation to bid-services	12	3	25.0%	13	Executive
6.8.06	Request for proposal-services	13	4	30.8%	17	Executive, Fire
6.12.06-6.13.06	Requisition to receipt	22	8	36.4%	23	Aviation, Executive
6.14.06-6.15.06	Property management	11	4	36.4%	23	Information Technology, Planning
	<b>Total</b>	<b>168</b>	<b>55</b>	<b>32.7%</b>	<b>227</b>	

**Legend**

\* Includes everyone present at the CRP, including presenters

The following departments and offices names have been abbreviated to the following:

Parks, Recreation and Cultural Affairs (Parks), Planning and Community Development (Planning), Watershed Management (Watershed), Judicial Agencies (Judicial), Executive Office (Executive), Ethics Office (Ethics)

Source: List of invitees and CRP3 sign-in sheets