



# CITY OF ATLANTA

**LESLIE WARD**  
City Auditor  
*lward1@atlantaga.gov*

**CITY AUDITOR'S OFFICE**  
68 MITCHELL STREET SW, SUITE 12100  
ATLANTA, GEORGIA 30303-0312  
(404) 330-6452  
FAX: (404) 658-6077

**AUDIT COMMITTEE**  
W. Wayne Woody, Chair  
Henry A. Kelly, Vice-Chair  
Fred Williams  
Mayor Shirley Franklin  
Council President Lisa Borders

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

**FROM:** Leslie Ward, City Auditor

**DATE:** April 19, 2006

**SUBJECT:** Ongoing review of Oracle implementation phase 2: HRMS applications round 2 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) 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 second round of Conference Room Pilots (CRPs) held on the human resources, payroll, advanced benefits, human resources self-service, labor distribution, and learning management applications.
- Reviewing Oracle's HRMS payroll processing management guide.
- Interviewing city staff and consultants regarding human resources processes

In order to achieve the benefits of an ERP system and improve its operations, the city must standardize and streamline its business processes. This requires city management to make important decisions before the system can be configured such as: the number of pay groups, what should be included in the new chart of accounts; and whether to outsource the payment of pensioners. Delays in making decisions can substantially delay the ERP implementation. The ERP steering committee should clarify how decisions are made, documented, and communicated.

Whenever possible the city should use the best practice flow models provided by Oracle. Using these models will allow the city to simplify ERP implementation and reduce business process complexity. We believe following this strategy will enhance city processes.

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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.

One goal of the second round of CRPs is to determine the configuration of the applications, so the applications meet the city's business needs. We believe that the following process changes and controls will meet the needs of the city while improving internal control.

### **Process Changes**

1. Oracle is configured to require employees to pay for benefits in arrears as soon as possible, i.e. taken out of the first available payment. Currently, the city does not have an established process for how an employee pays for benefits in arrears. Employees can pay over time or all at once. The city should adopt the collection process used by Oracle, since it is simple to implement, easy to track, and more equitable to employees.

*Comments: Agree.*

2. Oracle should be set up to drop individuals from benefits coverage if no payment for the benefits is received after 60 days. Such a practice will prevent arrears from ballooning into unmanageable amounts.

*Comments: Agree.*

3. The city should eliminate the use of paper Turn Around Documents (TADs) in the new ERP system. To replace TADs the city should utilize the self service functions available in Oracle. This process would allow personnel actions to occur more efficiently and still require supervisory and HR approval. The audit on the city's payroll processes found that TADs not processed timely caused many problems.

*Comments: Agree – Oracle Self Service rollout to City users will be phased so that the processing can be streamlined.*

4. The city should use Oracle's functionality of pre-notification for direct deposits. Pre-notification ensures that the bank can accept the direct deposit before the city runs payroll.

*Comments: Agree.*

### **System Controls**

5. Access to the reverse termination feature in Oracle should be limited to as few users as practically possible. Additionally, Oracle should be configured to alert the appropriate supervisor when a termination is reversed.

*Comments: Agree.*

6. To better track donated leave, Oracle should be configured with donated leave received and donated leave given fields. These fields will enable easier tracking of donated leave given and received.

*Comments: Agree.*

7. The city should use the taxability rules, which come seeded with Oracle. These rules apply to supplemental earnings, pre-tax deductions, and imputed earnings. Any rules added by the city will not be supported by Oracle and the city will be responsible for keeping the rules in compliance with IRS regulations.

*Comments: Agree.*

8. As part of the data conversion process, there is some information, such as the number of people covered under COBRA insurance, which has to be manually entered in Oracle. The city should take the necessary steps to ensure that this information is accurate and complete before and after entering it in Oracle.

*Comments: Agree.*

9. The city should run the unacceptable tax balance report, which identifies potentially incorrect withheld amounts for Medicare, state income tax, federal income tax, and other potential balance problems, before each payroll. In the forthcoming payroll tax compliance audit we found that the city was not withholding the proper amount of Medicare tax for some employees. Furthermore, the city should also have Oracle generate exception reports that identify problems before payroll is run, such as individuals without social security numbers.

*Comments: Agree.*

10. The city should limit employees that have access to change or update location codes. These codes are an integral part of calculating tax withholdings. Access to these codes should be restricted to Human Resources personnel. Others who have a business need should have "view only" access to location codes. Unauthorized changes to location codes could result in employees having no taxes withheld.

*Comments: Agree.*

11. When the city processes payroll through Oracle, the system should restrict users to "view only" access, to prevent changes being made to payroll as it is being processed.

*Comments: Agree that appropriate controls and procedures should be implemented so that payroll processing is not impacted by late changes.*

Please provide written responses to these recommendations no later than **April 18**. 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:

Felita Jones, Human Resources Lead

Nate Holley, Oracle Project Manager

Kathleen Essig, Oracle HRMS Lead

Copies: Steering Committee