



CITY OF ATLANTA


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TO: Honorable Mayor and Members of the City Council

FROM: Leslie Ward, City Auditor 

DATE: June 29, 2012

SUBJECT: Implementation of Selected Audit Recommendations: Department of Finance

We undertook this audit to assess the extent to which city officials have taken timely, appropriate corrective action in response to audit findings and recommendations. The city charter requires my office to report on completed audits, major findings, management's corrective actions, and significant findings that have not been fully addressed.

We followed up on seven recommendations with potential financial impact issued to the Department of Finance from five audits: *Pension Division Payments to Deceased Pensioners* (March 2004), *City Payroll Processes* (March 2006), *Payroll Tax Compliance* (April 2006), *Management and Use of the City's Credit Card Account* (December 2006), and *Indirect Cost Allocation* (December 2009). The recommendations range in age from two to eight years old. Management agreed with all seven of the recommendations. Since our initial recommendations, the city has moved the Pension Services Division from the Department of Finance to the Department of Human Resources. We conducted this audit in accordance with generally accepted government auditing standards. Our audit methods included:

- obtaining management's assessment of whether each recommendation has been implemented, partially implemented, or not implemented
- reviewing departments' responses and data submissions to understand how management addressed each audit recommendation
- interviewing city staff and third-party administrators to better understand processes
- examining credit card statements and assessing for late fees and finance charges

City staff has implemented one and partially implemented three of the seven recommendations we followed up in this report. We closed four partially implemented recommendations because we plan to perform more extensive audit and follow up work encompassing these recommendations. We reassigned one of the partially implemented recommendations issued to the Department of Finance to the three Pension Boards. The remaining two recommendations have yet to be implemented. Attachments A and B summarize our assessment of each recommendation.

While the General Employees' Pension Plan has processes in place to stop payments to deceased pensioners, it still lacks a process to recover overpayments. GEMGroup, the third-party administrator for the General Employees' Pension Plan, works cooperatively with the city's Pension Services Division to identify deceased pensioners and stop their pension payments, but still needs guidance on recouping overpayments. We recommend the city's pension boards provide guidance to all the third-party administrators on how to recover the funds. Additionally, the city's pension boards should require third-party administrators to provide exception reports of uncashed pension checks and outstanding unrecovered overpayments.

The city may not be recovering all outstanding advanced sick leave. In the 2006 *City Payroll Processes* audit, we recommended the chief financial officer seek repayment of advanced sick leave from employees who leave city employment. In our October 2010 follow-up report, *Implementation of Audit Recommendations to the Departments of Finance and Watershed Management*, we determined finance staff still lacked procedures to determine whether employees leaving the city had outstanding sick leave or to report this information to pension plan administrators so they could recover amounts owed when the employee accessed his or her pension funds. We reiterated our recommendation to the Department of Finance. The Pension Services Division has since moved from finance to the Department of Human Resources. Neither pension services staff nor payroll staff has written procedures to govern how the city recovers outstanding advanced sick leave from separated employees. The request form for advanced sick leave states the city will deduct the amounts owed from the employee's final pay, refund of pension contribution, or retirement benefit, if applicable. The Payroll Division does not deduct advanced sick leave from an employee's last paycheck. Payroll did not provide us with a report we requested listing employees with advanced sick leave balances owed. Pension services did not track repayments, so we could not assess the magnitude of unrecovered advanced sick leave through the pension services' process. We will further analyze advance sick leave repayment as part of our continuous audit program.

The city has no central process for tracking personal use of city vehicles. In the 2006 *Payroll Tax Compliance* audit, we recommended the chief financial officer develop procedures to accurately track and report the personal use of city vehicles. In our October 2010 follow-up audit, Department of Finance staff was unable to provide any documentation on the use of city assigned vehicles and mileage reimbursements. Since then, the Department of Finance simplified reporting requirements on the use of city vehicles by applying the Internal Revenue Service's Commuting Rule. This rule allows use of city vehicles under the following conditions:

- A vehicle is provided to an employee for use in business for bona fide non-compensatory business reasons
- A written policy is established under which an employee is not allowed to use the vehicle for personal use
- The employee does not use the vehicle for personal purposes other than commuting and *de minimis* personal use
- If the vehicle is an automobile, the employee who uses it for commuting is not an elected official or an employee compensated more than \$146,000

The city's vehicle use policy prohibits the personal use of city vehicles other than commuting, but establishes no enforcement mechanism. We plan to assess compliance with this policy as part of a future audit.

The city is more consistently making timely credit card payments. In the 2006 *Management and Use of the City's Credit Card Account* audit, we recommended that the Department of Finance ensure timely payment of credit card bills and make full payment of the accounts each month through a single electronic transfer. The Department of Finance implemented policies and procedures for handling credit cards in February 2010. In addition, finance staff downloads bank statements and forwards them to cardholders for verification prior to payment. We found the city incurred \$540.62 in late fees and finance charges from January 2011 to March 2012 compared to our October 2010 follow-up, which showed the city incurred \$4,222 over a 15-month period. Although the department still makes payments by check, we concluded this recommendation is fully implemented and closed it.

The city has yet to allocate Oracle implementation and operating costs as recommended. In the *Indirect Cost Allocation* audit, we recommended the chief financial officer allocate:

- Oracle implementation costs by annual depreciation/amortization through the cost allocation plan or charge funds directly for a share of the implementation costs
- Oracle operating costs among funds beginning with fiscal year 2009
- Oracle costs using a combination of transactions performed and budgeted full-time equivalent employees as allocation basis for both implementation costs and annual operating costs

The Department of Finance management confirmed the Oracle implementation costs are still not allocated among the funds. The city allocates a portion of the Department of Information Technology operating costs among funds. Supporting Oracle is one of many services provided by the Department of Information Technology; therefore, the allocation model captures a portion of the Oracle operating. However, the city has yet to base the allocation on a combination of transactions performed and budgeted full-time equivalent employees. Aviation and watershed paid 2.2% and 6.4% respectively of the Department of Information Technology's allocated costs. Their contributions were based on full time equivalent employees in departments. We reiterate our conclusion in the *Indirect Cost Allocation* audit that a combination of transactions performed and budgeted full-time-equivalent employees would produce a reasonable allocation of both implementation costs and annual operating costs.

Generally accepted government auditing 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.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Damien Berahzer, Melissa Davis, and Christopher Armstead.

Attachment A: Audit Recommendations Remaining Open

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
1	Indirect Cost Allocation December 2009 Management Agreed Expected Implementation Date: April 2010	The Chief Financial Officer should allocate Oracle implementation costs by annual depreciation/amortization through the cost allocation plan or charge funds directly for a share of the implementation costs	The city Controller confirmed Oracle implementation costs are not being allocated.	Not Implemented
		<p>Updated Management Response:</p> <p><i>Finance is in agreement that the initial Oracle implementation costs were not allocated and have not been allocated through depreciation expense. The major enterprise funds have been made aware of the financial impact of making this allocation. Since Oracle implementation costs were captured in the Capital Finance Fund (3503), Finance will analyze the activity and propose the appropriate accounting entries needed to recoup the implementation costs via a one-time transfer of cash to this fund.</i></p> <p>Updated Implementation Date: 12-31-2012 Responsible Person: CFO</p>		
	Report Title and Date	Recommendation	City Auditor Analysis	Report Title and Date
2	Indirect Cost Allocation December 2009 Management Agreed Expected Implementation Date: April 2010	The Chief Financial Officer should allocate Oracle costs using a combination of transactions performed and budgeted full-time equivalent employees as allocation basis for both implementation costs and annual operating costs	The city has yet to allocate the implementation and operating costs on a combination of transactions performed and budgeted full-time equivalent employees. The city uses full time equivalent employees in departments as the allocation basis.	Not Implemented
		<p>Updated Management Response:</p> <p><i>The Controller's Office is currently conducting the RFP process for the Cost Allocation Consulting Services. Once a firm has been awarded the contract, the Controller's Office will recommend that the consultant explore alternate (in relation to Maximus) methods to allocate DIT costs. Our recommendations would include using a combination of FTE and Oracle transactions, as well as exploring additional direct charging of certain DIT functions</i></p> <p>Updated Implementation Date: 12-31-2012 Responsible Person: CFO</p>		

Attachment B: Audit Recommendations Closed

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
1	<p>Pension Division Payments to Deceased Pensioners</p> <p>March 2004</p> <p>Management Agreed</p> <p>Expected Implementation Date: December 2006</p> <p>Followed-up in 2010</p> <p>We cleared some items pertaining to this recommendation in a previous follow up.</p>	<p>Identify Deceased Pensioners, Stop Payments, and Recover Overpayments More Promptly in the Future. The Director of Employee Benefits should establish a process to identify deceased pensioners as close to their dates of death as possible, and to stop payments and initiate action to recover overpayments immediately upon verification of a pensioner's death. The process should include:</p> <p>a. Developing and using a standard intake form for family notifications of a pensioner's death.</p> <p>e. Obtaining a monthly report of un-cashed pension checks and following up with the pensioner to determine why a prior month's check was not cashed. The Pension Division should stop</p> <p>f. Coordinating with the Insurance Division to obtain the names of pensioners whose life insurance policies have had claims made against them.</p> <p>g. Developing an exception report to identify where a pensioner's date of death has been entered but the pension payment has not been stopped.</p> <p>h. Immediately notifying the pensioner's estate or family of an overpayment and</p>	<p>The city has informal processes to identify and stop payments for deceased pensioners. However, the city's pension boards should provide guidance to third-party administrators on recovering overpayments to deceased pensioners and should require exception reports.</p>	<p>Closed</p> <p>Recommendation closed and replaced by New Recommendation #1 to the pension boards.</p>

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
		seeking recovery based on the guidelines in the policy developed through Recommendation 1 above. The notice should provide a deadline for contacting the Pension Division to make arrangements for repayment, as well as information about additional enforcements actions and other remedies that the city may pursue if repayment is not made.		
2	City Payroll Processes March 2006 Management Agreed Expected Implementation Date: December 2010	Ensure advanced leave is repaid. The chief financial officer should seek repayment from employees who leave city employment before repaying advanced leave.	The city fails to deduct advanced sick leave from the last paycheck. The city only seeks repayment from employees' pensions after the third-party administrator notifies the city that the employee has accessed his/her pension. Neither pension services nor payroll track repayments.	Closed Recommendation closed. We will continue to analyze advanced sick leave through the continuous auditing program.
3	Payroll Tax Compliance April 2006 Management Agreed Expected Implementation Date: December 2010	The chief financial officer should develop procedures to accurately track and report the personal use of city vehicles. To simplify the city's reporting requirements, we recommend: -whenever possible, encourage employees to use their personal vehicle for city business, and reimburse the employee for mileage under IRS regulations; -when the extent of business use warrants it, grant employees a vehicle allowance instead of an assigned city vehicle, thus eliminating additional reporting to the IRS;	The Department of Finance implemented procedures to simplify the city's IRS reporting requirement. The city's policy prohibits the personal use of city vehicles other than commuting; however, the city lacks procedures to enforce it.	Closed Recommendation closed. We plan to conduct an audit of take-home cars usage.

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
		<p>-request that MTS distinguish between vehicles that qualify for personal use under IRS regulations and vehicles that do not (i.e. qualified non personal use vehicle); and</p> <p>-provide MTS and/or operating departments with instructions on how personal use should be reported to the Payroll Division.</p>		
4	<p>Indirect Cost Allocation December 2009 Management Agreed Expected Implementation Date: April 2010</p>	<p>The Chief Financial Officer should allocate Oracle operating costs among funds beginning with fiscal year 2009.</p>	<p>The city allocates a portion of the Department of Information Technology's operating costs among funds. Supporting Oracle is one of many services provided by the department. Therefore some level of Oracle operating cost is captured in the allocation model.</p>	<p>Closed Recommendation Closed. We will continue to follow up on using a combination of full time equivalents and transactions as the basis for the allocation consistent with Open Recommendation #2</p>
5	<p>Management and Use of the City's Credit Card Account December 2006 Management Agreed Expected Implementation Date: October 2006</p>	<p>Ensure timely payment of the account. The Department should make full payment of the account each month through a single electronic transfer.</p>	<p>Finance has a policy regarding credit card use and payment. The city has incurred a total of \$540.62 in late fees and finance charges within the past 15 months for 9 card holders. This is lower than the previous follow-up discovery of \$4,222 for a similar 15 month period in 2010.</p>	<p>Implemented</p>

Attachment C: New and Reassigned Recommendations

1. The city's pension boards should establish policies that govern how third-party administrators recover overpayments to deceased pensioners. The city's pension boards should require third-party administrators to provide exception reports of uncashed pension checks and outstanding unrecovered overpayments.

Attachment D: Management Review and Response to Audit Recommendations

Report # 11.09	<u>Report Title:</u> Implementation of Audit Recommendations: Department of Finance	6/26/2012
Recommendation # 1		Degree of Agreement
<p>The city’s pension boards should establish policies that govern how third-party administrators recover overpayments to deceased pensioners. The city’s pension boards should require third-party administrators to provide exception reports of uncashed pension checks and outstanding unrecovered overpayments.</p>		Agree (3 Pension Boards)
		Implementation Timeframe
		TBD
		Responsible Person
		Chair of Each Pension Board
<p><u>Proposed Action:</u> The pension boards will meet to discuss and develop a plan for addressing the recommendation.</p>		