



# CITY OF ATLANTA

**LESLIE WARD**  
City Auditor  
[ward1@atlantaga.gov](mailto:ward1@atlantaga.gov)

**AMANDA NOBLE**  
Deputy City Auditor  
[anoble@atlantaga.gov](mailto:anoble@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**  
Fred Williams, CPA, Chair  
Donald T. Penovi, CPA, Vice Chair  
Marion Cameron, CPA  
C.O. Hollis, Jr., CPA, CIA  
**Ex-Officio:** Mayor Kasim Reed

**TO:** Honorable Mayor and Members of the City Council

**FROM:** Leslie Ward 

**DATE:** June 23, 2014

**SUBJECT:** Implementation of Audit Recommendations: Department of Finance

We undertook this audit to assess the extent to which responsible 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 twelve recommendations issued to the Department of Finance from two audits: Indirect Cost Allocation (December 2009) and Department of Watershed Management Claims Review (March 2011). The recommendations range from 39 months to 54 months old. Management agreed or partially agreed with all of the recommendations and planned to implement them within ten months of issuance. We conducted this follow-up in accordance with generally accepted government auditing standards. Our 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
- reviewing prior follow-up work related to recommendations

The Department of Finance implemented five, partially implemented two, and did not implement five of the recommendations we assessed in this report. As a result of our follow up, we are closing all twelve recommendations. Attachment A summarizes our assessment of each recommendation.

The Department of Finance has implemented or partially implemented seven recommendations related to indirect cost allocation. Our 2009 audit found that errors in the city's fiscal year 2008 cost allocation plan resulted in \$11 million in net overcharges to the enterprise funds. The department has implemented recommendations to correct the overcharges and to improve its oversight of the cost allocation process.

The department did not eliminate direct bill full-time equivalents for overhead departments. Our audit found a systematic error in the cost allocation that charged enterprise departments twice for these positions. We recommended that the city instead recover the cost of the positions through the indirect cost allocation on a monthly basis, which the department has since determined is not feasible.

The department also did not implement recommendations to simplify the cost allocation plan methodology. Our audit concluded that plan complexity and lack of oversight had contributed to the errors. We recommended that the department simplify the plan methodology to consistently identify central service departments and to allocate costs at the fund level only.

The department has not implemented the two recommendations from the Department of Watershed Management Claims Review audit, but those recommendations are superseded by our Workers' Compensation audit (September 2013). In our 2013 Workers' Compensation audit we recommended that the chief financial officer:

- use claims data from the third party administrator to assess and mitigate loss prevention and injury risk, and
- share the information with City Council, human resources and city department staff to allow them to assess, monitor and mitigate risk on a citywide basis

This new recommendation incorporates our two previous recommendations to the chief financial officer, making them no longer necessary. We will follow up on the Workers' Compensation audit recommendations in the future.

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.

We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Rhonda Sadler and Jamie Amos.

Cc: Jim Beard, Chief Financial Officer  
Gwendolyn A. Smith, Deputy Chief Financial Officer  
John Gaffney, Controller  
Alison A. Knight, Business Process Analyst, Sr.  
Michael J. Geisler, Interim Chief Operating Officer  
Hans Utz, Deputy Chief Operating Officer  
Thomas L. Weyandt, Jr., Deputy Chief Operating Officer, Mayor's Office

Kristin Wilson, Deputy Chief Operating Officer, Mayor's Office  
Candace Byrd, Chief of Staff  
Katrina Taylor, Deputy Chief of Staff  
Carlos Campos, Director of Communications, Mayor's Office  
Anne Torres, Deputy Director of Communications, Mayor's Office  
Melissa Mullinax, Office of Communications, Mayor's Office  
David Bennett, Senior Policy Advisor, Mayor's Office  
Cathy Hampton, City Attorney  
Peter Andrews, Deputy City Attorney  
Nina Hickson, Ethics Officer  
Rhonda Dauphin Johnson, Municipal Clerk  
Tangela Williams, Council Director  
Dexter Chambers, Director, City Council Officer of Communications  
Reggie Grant, Policy Analyst, Finance/Executive Committee  
Audit Committee Members

## Attachment A: Audit Recommendations Closed

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
1	<b><i>Indirect Cost Allocation</i></b> (December 2009)  Management Agreed  Expected Implementation Date: (December 2009)	The chief financial officer should make appropriate adjustments to the financial statements for fiscal year 2008.	In 2009, the finance department adjusted the indirect cost allocation for fiscal year 2008. The department provided a screenshot displaying the adjustments in the city's financial system.	<b>Implemented</b>
2	<b><i>Indirect Cost Allocation</i></b> (December 2009)  Management Agreed  Expected Implementation Date: (May 2010)	The chief financial officer should document cost allocation procedures to include department meetings, timeframe for submissions, and schedule for completion.	The finance department provided documentation showing department meetings and deadlines for the 2013 cost allocation process. Specifically, the document included department names, department heads, assignees, email communication request dates, interview dates and times, phone numbers, and follow up status.	<b>Implemented</b>
3	<b><i>Indirect Cost Allocation</i></b> (December 2009)  Management Agreed  Expected Implementation Date: (May 2010)	The chief financial officer should establish a policy to meet annually with applicable city departments to explain the purpose and planned uses of the source data; identify, document, and review the allocation basis for each department; and identify any significant organizational changes that would impact the cost allocation plan.	The Department of Finance created a ten step overview of the indirect cost allocation process that meets the purpose of the recommendation. The process includes the following: the contractor identifies the departments based on the city's expense report; the contractor arranges meetings with all departments to discuss the purpose of the plan, review the prior plan, review current year expenses, identify changes in the department and revisit the allocation basis; the contractor collects allocation source reports from the departments;	<b>Implemented</b>

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
			finance reviews the initial draft plan; and the plan is finalized.	
4	<b>Indirect Cost Allocation</b> (December 2009)  Management Agreed  Expected Implementation Date: (May 2010)	The chief financial officer should simplify and consistently identify central service departments.	The finance department has not changed the allocation plan methodology for determining the number of central service departments.	<b>Not Implemented</b>
5	<b>Indirect Cost Allocation</b> (December 2009)  Management Partially Agreed  Expected Implementation Date: (May 2010)	The chief financial officer should simplify plan methodology to allocate indirect costs at the fund level only, rather than to departments within funds.	The finance department has not changed the plan methodology for allocating indirect costs. Although the department continues to true-up indirect allocation costs at the fund level after it completes the annual plan, the department has not ceased allocating to departments within funds.	<b>Not Implemented</b>
6	<b>Indirect Cost Allocation</b> (December 2009)  Management Agreed  Expected Implementation Date: (May 2010)	The chief financial officer should independently review city departments' allocation data for logic and accuracy, and ensure that the bases reasonably reflect workload and benefit to receiving departments.	The finance department provided evidence showing its review of departments' allocation data for logic and accuracy. In particular, the department submitted communications with the contractor, and the department submitted its allocation plan process that includes reviewing, analyzing, comparing the data, and highlighting corrections or changes to the contractor's draft plan.	<b>Implemented</b>

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
7	<b>Indirect Cost Allocation</b> (December 2009)  Management Agreed  Expected Implementation Date: (March 2010)	The chief financial officer should rebid the cost allocation contract. In the new RFP, include performance measures to assess contractor performance.	The finance department rebid the cost allocation contract. We reviewed the current cost allocation contract executed on January 14, 2013, and found no performance measures.	<b>Partially Implemented</b>
8	<b>Indirect Cost Allocation</b> (December 2009)  Management Partially Agreed  Expected Implementation Date: (May 2010)	The chief financial officer should eliminate direct bill full-time equivalents for overhead departments. Recover the cost of the positions through the indirect cost allocation on a monthly basis.	The finance department has not eliminated direct billing for full-time equivalents and the department stated that recovery of the cost of those positions on a monthly basis is not feasible.	<b>Not Implemented</b>
9	<b>Indirect Cost Allocation</b> (December 2009)  Management Agreed  Expected Implementation Date: (April 2010)	The chief financial officer should allocate Oracle implementation costs by annual depreciation through the cost allocation plan or charge funds directly for a share of the implementation costs.	On December 2, 2013, Council passed Ordinance 13-O-1412 authorizing the chief financial officer to allocate Oracle implementation costs among funds by amending the city's FY2014 budget.	<b>Implemented</b>
10	<b>Indirect Cost Allocation</b> (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.	City legislation 13-O-1412 shows transactions and budgeted FTEs as the basis for the Oracle implementation cost allocation. The IT Operations section of the annual allocation plan now allocates operating costs based on FTEs. Transactions performed are not used as a basis for the allocation of the operating costs.	<b>Partially Implemented</b>

	Report Title and Date	Recommendation	City Auditor Analysis	Implementation Status
11	<p><b>Department of Watershed Management Claims Review</b> (March 2011)</p> <p>Management Agreed</p> <p>Expected Implementation Date: (December 2011)</p>	<p>The chief financial officer should develop a comprehensive risk management program that includes tort claims analysis, consistent with city code requirements and best practices.</p>	<p>This recommendation is superseded by the 2013 Workers' Compensation Audit. The Interim Director of Enterprise Risk Management plans to implement the recommendation by the end of 2014.</p>	<b>Not Implemented</b>
12	<p><b>Department of Watershed Management Claims Review</b> (March 2011)</p> <p>Management Agreed</p> <p>Expected Implementation Date: (December 2011)</p>	<p>The chief financial officer should ensure that all city departments are notified of and comply with the risk management program requirements and regularly receive data on claims and litigation risk analysis.</p>	<p>This recommendation is superseded by the 2013 Workers' Compensation Audit. The Interim Director of Enterprise Risk Management plans to implement the recommendation by the end of 2014.</p>	<b>Not Implemented</b>