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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable Mayor and Members of City Council
City of Atlanta, Georgia

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Atlanta, Georgia (the City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 2020. Our report includes a reference to other auditors who audited the financial statements of Atlanta-Fulton County Recreation Authority and the Atlanta Development Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items, 2020-001, 2020-002, 2020-003, 2020-004, and 2020-005 to be material weaknesses. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Responses to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Atlanta, Georgia
December 18, 2020

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2020-001 *Information Technology Monitoring Access (Primary Government) (updated from 2019)*

Criteria

Access to system applications, including the ability to make production changes, changes in the testing environment, emergency changes as well as access to powerful IDs for applications, servers, and databases should be restricted to appropriate personnel, and activities should be monitored to ensure access is appropriate.

Condition, Cause and Effect

During the prior year's audit, we noted that the City did not have appropriate monitoring controls in place to review access to Oracle Cloud, including the super-user access. In addition, we observed that user access review related to transfers and terminations was not performed on a timely basis.

During fiscal year 2020, the City did not have appropriate monitoring controls in place to review access to Oracle Cloud. First, we noted that the Department of Atlanta Information Management (AIM) did not perform a complete and accurate review of Oracle Cloud access on a semi-annual basis as designed in the City's policy. Second, we noted that former employees' access was not terminated on a timely basis. Finally, we were informed that a shared account used to schedule and process batch jobs that interface data may have inappropriate access as the password has not been changed during fiscal year 2020.

Recommendation

We recommend the City design and implement internal controls to actively and routinely monitor the access to the Oracle Cloud as well as the actions performed by super-users and administrators on a timely basis in order to ensure that access is appropriate and that the tasks performed are properly authorized and appropriate. Furthermore, the City should design and implement internal controls to effectively monitor that terminations related to former employees occur on a timely basis. Further, the City should implement a policy to change passwords on shared accounts on a periodic basis.

Prior Year's Management's Response Update

The City has documented protocols in place to manage user access, but we agree with the recommendation for additional procedures:

Existing Procedures:

- Procedures require that any change made by a vendor or internally must be supported with an IT approved ticket/case, which receives approval through IT's change management process. These changes are documented in IT's ticketing system.
- A weekly meeting between the vendor and IT is held to review any issues associated with previous changes and discuss any current issues and/or upcoming changes.
- IT conducts biannual user access reviews to identify terminated, retired, and transferred employees and/or contractors.

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New Procedures:

- While procedures state that changes should not be made without prior IT approval, we agree that another level of access review should occur. The procedures have been updated to include a more formally documented monthly review of all associated system logs to verify the activity matches, both in time and scope, the register of approved change requests.

The Department of Atlanta Information Technology will continue to follow existing and new procedures to manage and monitor systems access. Oracle EBS is no longer in production since the implementation of Oracle Cloud as of January 2019.

2020 Management's Response Update

The Department of Atlanta Information Technology (AIM) will work with the ATLCLOUD governance stakeholders (Human Resources, Procurement, Finance) to enhance the controls related to monitoring user access, including actions performed by super users and administrators. The controls should address both the monitoring the appropriateness of assigned individual User Roles as well as terminated employee access. During Fiscal 2021, AIM will document adherence to its policy of biannual monitoring of Oracle Cloud Users. Finally, the ATLCLOUD governance is actively exploring the development of an automated process to monitor and terminate Oracle Cloud access for terminated Users.

2020-002 OPEB Census Data

Criteria

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable accounting framework, including using complete and accurate census data in preparing estimates recorded in such financial statements.

Condition, Cause and Effect

During fiscal year 2020, errors in the census data used to allocate the OPEB liability and related accounts between the City's general government and various enterprise funds were identified during the audit. As a result, management had to properly reconcile the census data and determine its impact on the general government and the various enterprise funds.

Recommendation

We recommend that management enhance its policies and procedures to include an annual review of census data used to allocate the OPEB liability and related accounts between the general government and the various enterprise funds for completeness and accuracy.

Management's Response

The Department of Human Resources (HR) will work with SBA (Strategic Benefits Advisors) to develop a process to review census data that is submitted to the new TPA (Third Party Administrator). In addition, HR and SBA will work together to include an internal pre-audit to review census data with the TPA prior to it being released to the Actuarial Consultant as a part of the administrative changes. Going forward, HR will ensure adequate resources are in place to achieve this process review for both the pension and OPEB allocation.

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2020-003 *Pension Plan Census Data (updated from 2017, 2018, and 2019)*

Criteria

Management of single-employer and multiple-employer pension plans is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable accounting framework, including completeness and accuracy of census data.

Condition, Cause and Effect

During the 2020 audit of the City of Atlanta, Georgia's Pension Plans - General Employees' Pension Plan, Firefighters' Pension Plan, and Police Officers' Pension Plan (the Plans), and consistent with the finding noted in the prior years, we noted the City of Atlanta, Georgia, as the sponsor of the Plans, did not adequately review and validate the census data of active members, retirees, and beneficiaries prior to the submission to the respective third-party administrator (TPA) and the independent actuary. During our audit, we noted errors in the underlying information.

Recommendation

We recommend that the Plan's management enhance its policies and procedures to include the timely review and validation of the completeness and accuracy of the census data that is reported to the TPAs from the City of Atlanta, Georgia. Management should consider the assessed risk of error when determining the extent and frequency of verification procedures to be performed. We believe that these additional procedures will enhance the integrity of the census data provided to the TPA that is used to calculate the benefits paid to the retirees and beneficiaries as well as to the actuary to estimate the required annual contribution and estimated pension liability.

Prior Year's Management's Response Update

The Pension Investment Board voted to move forward with issuing an RFI (Request for Information) to seek qualified third-party firms to audit the pension data for the City of Atlanta. A critical part of this audit process will be completing a historical review of all census data that is maintained by the third-party administrator (TPA) and the City to ensure accuracy and eliminate the discrepancies in the pension files. In addition, the TPA is recommending moving forward with an annual audit of retirees and beneficiaries by requiring retirees to complete a Pension Verification Questionnaire. The questionnaire is utilized to ensure that only eligible persons are receiving pension plan benefits in accordance with the retirement law. Any retiree or beneficiary in pay status who does not return the completed, notarized form within 90 days will have his or her benefit payments suspended until verification is provided.

2020 Management's Response Update

The Pension Investment Board voted to move forward with issuing a contract to SBA (Strategic Benefits Advisors) as the new Third-Party Administrator (TPA) to manage the pension plan for the City of Atlanta. The transition to SBA will take place January 2021. As a part of the transition process from Zenith, SBA will audit the data and complete a historical review of all census data that is maintained by the Third-Party Administrator (TPA) and the City to ensure accuracy and elimination of discrepancies in the pension files.

In addition, Finance will review payroll elements quarterly to determine if appropriate for inclusion in census data reported to the Third-Party Administrator.

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2020-004 Pension Plan Benefit Payments (updated from 2017, 2018, and 2019)

Criteria

Management of single-employer and multiple-employer pension plans is responsible for distributing benefit payments to retirees and beneficiaries in accordance with the applicable Pension Plan documents.

Condition, Cause and Effect

During the 2020 audit of the Plans, and consistent with the finding noted in the prior year, we noted the City of Atlanta, Georgia, as the sponsor of the Plans, did not adequately review and validate the benefit payment distributions to retirees and beneficiaries in order to ensure that the distribution payments made by the TPA were for the appropriate amount and in accordance with the applicable Pension Plan documents. During our audit, we noted errors in the benefit payment amounts to retirees and/or beneficiaries.

Recommendation

We recommend that the City's management enhance its policies and procedures to include the timely review and validation of the benefit payments prior to distribution by the TPA. We believe that these policies and procedures will help to ensure that the benefits paid to retirees and beneficiaries are appropriate and in accordance with the applicable Pension Plan documents.

Prior Year's Management Response

The City of Atlanta will include an internal pre-audit to review census data with the TPA prior to it being released to the Actuarial Consultant. As a part of the administrative changes, the TPA will be requiring to provide the City with a monthly pension payment report that will allow the City the complete reviews regarding pension and insurance benefits concerns. This process should significantly enhance administrative processes for both entities. The pre-audit will include timely review of pertinent information. In addition, procedures and policies will be established to coordinate the sign-off of pension data from the City to the third-party administrator (TPA).

2020 Management's Response Update

The Department of Human Resources (HR) will work with SBA to develop a process to review pension benefit calculations for accuracy before payments are made to retirees and beneficiaries. HR and SBA (Strategic Benefits Advisors) will work together to include an internal pre-audit to review census data with the TPA prior to it being released to the Actuarial Consultant as a part of the administrative changes. The TPA will be required to provide the City with a monthly pension payment report that will allow the City to complete reviews regarding pension. This process should significantly enhance the administrative process for both entities. This pre-audit will include timely review of pertinent information. In addition, procedures and policies will be established to coordinate the sign-off of pension data from the City to the Third-Party Administrator.

2020-005 Inaccurate Financial Reporting (Department of Watershed Management)

Criteria

A critical component of an organization's internal control over the financial reporting process is the process of maintaining accurate books and records that support the reported amounts.

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Condition, Cause and Effect

During our audit of the financial statements as of and for the year ended June 30, 2020, we noted reporting errors which required correction in the financial statements of the Department as follows:

- There were instances where management did not properly accrue liabilities for payments made subsequent to year end which related to fiscal year 2020. As the result of the errors in our audit procedures, management performed further analysis over the entire population of subsequent disbursements through October 31, 2020 and identified approximately \$13.3 million in invoices related to fiscal year 2020 which had not been accrued as of June 30, 2020. Of the \$13.3 million identified, approximately \$10.2 million related to capital projects and approximately \$3.1 million related to operating expenses. A proposed adjustment for this error was recorded by management.
- There were instances where management did not transfer completed construction in progress (CIP) projects to depreciable fixed assets on a timely basis and/or completely. Our audit procedures over all CIP projects as of June 30, 2020 identified approximately \$5.8 million of CIP that should have been transferred to a depreciable fixed asset account during the fiscal year. A proposed adjustment for this error was recorded by management.
- There were instances where management did not appropriately release retainage held on capital projects that were completed. During our audit procedures, we identified approximately \$1.7 million in retainage payable that should have been released as of June 30, 2020. A proposed adjustment for this error was not recorded by management.

In our discussions with management, it was noted that these conditions were largely a result of the implications of the COVID-19 pandemic, specifically surrounding the abrupt transition to a remote working environment. In addition, the Department did not have access to software used to monitor and manage capital projects for a portion of the fiscal year which resulted in the completion status of projects being monitored manually.

Inaccurately recording financial transactions may result in the misstatement of the Department's financial statements.

Recommendation

We recommend the Department review its current processes for transactions impacted by the errors discussed above and implement additional internal control procedures to ensure financial transactions are accurately reported in the general ledger and the financial statements.

Management's Response

The Department of Watershed Management will continue to utilize e-Builder Construction Management software to review and monitor the status of all CIP projects, in addition to assisting with the year-end accrual reconciliation. The Department's Office of Financial Administration will also continue to work closely with the internal teams in the Office of Engineering Services and assist when possible to ensure the e-Builder software is accessible. The Department will review all CIP projects on a quarterly basis and transfer completed projects accordingly. The Department will review and evaluate the retainage to determine the appropriate treatment for removal.

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The Department will also implement additional controls around the year-end accrual process of reporting operating expenses to mitigate the risk of inaccurate reporting during the challenging and unprecedented environment.