Performance Audit:

Indirect Cost Allocation

Why We Did This Audit

We undertook this audit because senior management from the departments of aviation and watershed management questioned whether the city's plan for allocating indirect costs overcharged enterprise funds and expressed concern about the lack of transparency in the allocation methods. We also noted instances in which the enterprise funds seemed to be underpaying for citywide expenses, such as the $41.6 million Oracle implementation.

What We Recommended

To ensure that the cost allocation plan is equitable, the Chief Financial Officer should:

- Make appropriate adjustments to the financial statements for fiscal year 2008.

- Document cost allocation procedures to include department meetings, timeframe for submissions, and schedule for plan completion.

- Establish a policy to meet annually with applicable city departments to explain the planned uses of the source data; review the allocation bases; and identify any significant organizational changes that would impact the cost allocation plan.

- Simplify central service departments and plan methodology to allocate indirect costs at the fund level only, rather than to departments within funds.

- Independently review city departments' allocation data for logic and accuracy, and that the bases reasonably reflect workload and benefits.

- Rebid the cost allocation contract and include performance measures.

- Eliminate direct bill full-time equivalents for overhead departments.

- Allocate Oracle implementation costs by annual depreciation through the cost allocation plans or charge funds directly, using a combination of transactions and full-time equivalent employees.

- Allocate Oracle operating costs among funds beginning with fiscal year 2009, using the same method.

For more information regarding this report, please contact Eric Palmer at 404.330.6455 or epalmer@atlantaga.gov.

What We Found

Errors in the city's fiscal year 2008 cost allocation plan resulted in $11 million in net overcharges to the enterprise funds. Incorrect data and errors in methodology contributed to the overcharges. In some cases, we were unable to quantify the effect of errors. Plan complexity and lack of city oversight obscured the errors and lack of communication allowed errors to be repeated year to year.

A systematic error affected allocations of all departments that have direct funded positions and provide work effort data as an allocation basis for indirect charges. Since direct appropriations from enterprise funds for support services increased in fiscal year 2008, the magnitude of errors increased as well. Thus, even though errors were repeated from year-to-year, the magnitude was significantly less in fiscal year 2007.

The city did not allocate $41.6 million spent implementing its Oracle system. These costs were not included in any of the cost allocation plans. Because the system benefits all of the departments, the implementation costs should be shared among funds.

The plan makes it difficult to understand where costs originate and provides a level of detail that the city does not use. The double-step down method is more complicated than necessary to meet the city's needs. The criteria for defining a central service department is unclear. The city's practice of funding some support positions through direct appropriations from the enterprise funds then allocating credit for the amounts directly billed complicates the plan. The plan does not summarize fund-level information to explain the net effect of the allocations, making it difficult for receiving departments to track what was allocated to them.

Finance shifted the timeframe for plan completion to suit its schedule, compressing the data collection schedule and reducing time for quality assurance. More time to review data submitted and overall plan for material errors could have prevented some of the errors.

The city's contract with Maximus does not define responsibilities for ensuring data reliability. The contract also lacks a mechanism for evaluating contractor performance. City oversight of contract performance was minimal and the contractor did not perform all required activities.