



CITY OF ATLANTA
City Auditor's Office
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April 2022

Performance Audit:

Why We Did This Audit

We undertook this audit because our June 2021 report, *Forensic Audit Services*, found that control deficiencies in the procurement process allowed a former city executive to make improper payments. We assessed whether controls were in place for the Department of Finance to ensure that direct payments are appropriate.

What We Recommended

To promote compliance with policy and reduce the volume of direct payments, the chief financial officer should:

- revise the Accounts Payable policy to require departments to use micro-purchasing for goods/services under \$5,000
- report dashboard results for each city department to the Finance Executive Committee
- ensure the Accounts Payable policy requires department head approval
- prevent staff who set up one-time vendor profiles in Oracle from creating/approving associated direct payments
- work with third-party vendor to improve the accuracy of the dashboard
- consider auditing the dashboard report quarterly for data reliability
- provide periodic refresher training to departments on dashboard and account coding
- work with city departments to improve consistency in account coding

For more information regarding this report, please use the "contact" link on our website at www.atlauditor.org

Direct Payments

What We Found

The direct payment process allows city departments flexibility to obtain goods quickly, and the ability to procure items that cannot be obtained through the competitive procurement process, such as utility payments and subscriptions. The process, however, carries more risk than other procurement methods such as procure-to-pay or procurement cards. The direct payment process has relatively few pre-purchase controls, because the purchased item has usually already been received before the Department of Finance has an opportunity to review the purchase, obligating the city to make payments to vendors.

Goods and services under \$5,000 could be procured as micro-purchases, which allows goods to be obtained sooner than in a traditional procurement, because it requires one quote rather than the three quotes required for small purchases. The majority of direct payments in fiscal year 2021 were \$5,000 or less, potentially eligible to have been made as micro-purchases. Even though direct payments are risky transactions, departments did not consistently follow, and Accounts Payable did not consistently enforce existing controls outlined in its procedures, such as requiring departments to submit all required documentation and obtaining proper authorizations.

Accounts Payable could also enhance certain controls to make the direct payment process less risky, including requiring department heads to sign off on direct payments and separating incompatible duties so the same Accounts Payable employee cannot both create and approve a direct payment.

Accounts Payable has directed city departments to use a dashboard report to track compliance with policy and to reduce the number of unallowable direct payments. Finance considers unallowable direct payments as those not specifically mentioned in Accounts Payable policy, while allowable direct payments are pre-authorized. We found that the report is not accurate—it includes unpaid and non-direct payment transactions, such as wire transfers, and classifies some allowable direct payments as unallowable, limiting its usefulness.

Management Responses to Audit Recommendations

Summary of Management Responses		
<p>Recommendation #1:</p> <p>We recommend that the chief financial officer revise the Accounts Payable policy to require city departments to use micro-purchasing for goods and services not exceeding \$5,000 that can be procured to pay and provide training to city departments on the updated policy.</p>		
<p>Response: Agree</p>	<p>Status: Started</p>	<p>Estimated Completion Date (M/Y): 03/18/2022</p>
<p>Recommendation #2:</p> <p>We recommend that the chief financial officer report the dashboard results for each city department during Finance's quarterly presentation to the Finance Executive Committee, highlighting the number of unallowable direct payments under \$5,000.</p>		
<p>Response: Agree</p>	<p>Status: Implemented</p>	<p>Estimated Completion Date (M/Y): 05/01/2022</p>
<p>Recommendation #3:</p> <p>We recommend that the chief financial officer ensure the Accounts Payable policy reflects current practices and requires Finance staff to put direct payments on hold status until city departments meet all direct payment requirements.</p>		
<p>Response: Agree</p>	<p>Status: Implemented</p>	<p>Estimated Completion Date (M/Y): 03/18/2022</p>
<p>Recommendation #4:</p> <p>We recommend the chief financial officer require city departments to use the updated Accounts Payable disbursement form, submit required documentation, and ensure all required signatures are present on disbursement forms.</p>		
<p>Response: Agree</p>	<p>Status: Implemented</p>	<p>Estimated Completion Date (M/Y): Ongoing</p>
<p>Recommendation #5:</p> <p>We recommend that the chief financial officer update the Accounts Payable policy to require department heads to approve all direct payments.</p>		
<p>Response: Agree</p>	<p>Status: Started</p>	<p>Estimated Completion Date (M/Y): 02/09/2022</p>

Recommendation #6: We recommend that the chief financial officer establish controls to prevent staff who set up one-time vendor profiles in Oracle from creating and approving associated direct payments.		
Response: Agree	Status: Implemented	Estimated Completion Date (M/Y): 03/18/2020
Recommendation #7: We recommend that the chief financial officer work with the third-party vendor to improve the accuracy of the dashboard by correcting identified discrepancies and validating report data.		
Response: Agree	Status: Implemented	Estimated Completion Date (M/Y): 10/2021
Recommendation #8: We recommend that the chief financial officer update the Accounts Payable policy to ensure that categories of allowable expenses are comprehensive and consider auditing the dashboard report quarterly for data reliability.		
Response: Agree	Status: Implemented	Estimated Completion Date (M/Y): Ongoing
Recommendation #9: We recommend that the chief financial officer update Accounts Payable policy to include the account coding for allowable expenses and provide periodic refresher training to city departments on the dashboard and account coding.		
Response: Agree	Status: Implemented	Estimated Completion Date (M/Y): 03/18/2021
Recommendation #10: We recommend that the chief financial officer direct the Office of Budget and Fiscal Policy to work with city departments to improve their consistency in account coding for direct payment requests.		
Response: Agree	Status: Not Started	Estimated Completion Date (M/Y): First Quarter of FY23