



CITY OF ATLANTA

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TO: Councilmember Howard Shook, Chair, and members of City Utilities Committee

FROM: Leslie Ward *lw*

DATE: May 10, 2005

SUBJECT: Reconciliation of Consent Decree Project Expenditures

At the April 26th meeting of the City Utilities Committee, during discussion of our first quarter report on consent decree project expenditure reporting, you asked that the audit team and Watershed Management's project management team (PMT) review expenditure differences for projects included in the audit report. The committee's focus was on the projects for which we reported large differences between the city's financial system (MARS-G) and the PMT monthly report, volume II.¹

The staff has concluded the review and reconciliation. The results for each of the 21 projects in the audit report are shown in the attached table. Please note the following key points about the results:

- **The audit team and the PMT staff are in agreement on 11 projects.** The audit report showed seven projects on which the audit and the PMT monthly report were in agreement.² The reconciliation resulted in four more projects on which we now agree, as a result of two adjustments to the audit figures and two additions of information that was omitted from the PMT monthly report. These adjustments and additions reconciled individual audit differences of \$4.5 million.
- **Differences remain between the audit team and the PMT staff on 10 projects, but we agree on the reasons for the major remaining differences and do not**

¹ The Department of Watershed Management has already acknowledged that the expenditures reported in volume I of the monthly reports are incomplete. Because DWM senior management has stated they do not use the volume I financial information, it will be made consistent with volume II figures in future reports.

² One of the original seven showed a difference of 38 cents, which was simply rounding. We do not regard that project as a difference.

plan further reconciliation efforts. These “explained” audit differences total \$5.4 million. The explanations are as follows:

- The PMT staff included retainage amounts that have not yet been paid in their expenditures for two projects. In the audit methodology, these are not treated as expenditures until they are paid. One of the projects has unresolved claims and counterclaims concerning liquidated damages, which could affect the amount of retainage ultimately paid.
 - The PMT staff included expenditures that occurred after the end of February for two projects, because DWM had initiated the payment process earlier. The audit methodology included only amounts actually paid by the end of February.³
 - The PMT staff has identified additional pre-design work for one project that was not in the audit calculations. We have reviewed the authorization for additional work, and we believe that the payments occurred three or more years ago. We do not believe that further efforts to reconcile specific payments would be worthwhile.
 - Four projects had differences of less than \$1,000 each, and no efforts were made to resolve these small amounts. Total unexplained variances, including these four projects plus one other, now total about \$17,000.
- **Both the audit team and the PMT staff made other adjustments and corrections on the 10 projects with differences.** These changes are noted in the attached table. They reflect the potential for error when manually combining data from different sources and confirm the importance of having quality control processes for such work. Quality control procedures do not necessarily detect every error but do provide reasonable assurance of detecting errors.
 - **The issues identified in the reconciliation do not affect the recommendations we made in the April 26th quarterly report.** The reconciliation confirms the need for quality control procedures and consistent data sources in the monthly reporting process for consent decree projects. The focus of the audit recommendations is on improving the accuracy and reliability of future reporting. The fact that the reconciliation resulted in corrected figures for one previous monthly report does not alter the primary purpose of the audit.
 - **We make one additional recommendation:** Watershed Management and the PMT should develop consistent definitions of expenditure data used in the monthly reports and include those definitions in the reports.

LW:cn

Attachment

Cc: Mayor Shirley Franklin
Council President and Members, Atlanta City Council
City Audit Committee
Rob Hunter, Commissioner of Watershed Management

³ One of the two projects affected by this issue is now combined with a third project, to avoid cost allocation issues between projects conducted under one contract. In addition, the PMT still has an unexplained variance of about \$15,300 for one project in this group.

Project	Original MARS/G Totals	Revised MARS/G Totals	Original PMT Monthly Report (Volume II)	Revised PMT Monthly Report (Volume II)	Original Difference Between MARS/G and Volume II of the PMT Monthly Report	Revised Difference Between MARS/G and Volume II of the PMT Monthly Report	Reasons for Changes	Unexplained Variance
1 Greenway Acquisition	\$4,755,716	\$4,755,716	\$4,755,716	\$4,755,716	\$0	\$0	No change	
2 Custer Avenue Storage & Dechlorination	\$1,519,365	\$1,519,365	\$1,519,365	\$1,519,365	\$0	\$0	No change	
3 Stockade Combined Sewer Separation	\$2,444,710	\$2,444,710	\$2,444,710	\$2,444,710	\$0	\$0	No change	
4 Sewer Group 1 - SSES Contract B	\$3,987,434	\$3,987,434	\$3,987,434	\$3,987,434	\$0	\$0	No change	
5 Sewer Group 1 - SSES Contract A	\$3,736,120	\$3,736,120	\$3,736,120	\$3,736,120	\$0	\$0	No change	
6 Sewer Group 2 - SSES Contract A	\$253,526	\$253,526	\$253,526	\$253,526	\$0	\$0	No change	
7 Small Diameter Sewer Rehab	\$7,053,669	\$7,053,669	\$7,053,669	\$7,053,669	\$0	\$0	No change	
8 West Area Storage Tunnel and Pumping Station	\$55,740,577	\$53,739,271	\$53,739,271	\$53,739,271	\$2,001,306	\$0	We included a payment that occurred after the end of February and did not detect the error.	
9 Sewer Group 1 - SSES Contract C	\$5,807,529	\$6,383,549	\$6,383,549	\$6,383,549	(\$576,020)	\$0	Two retainage payments were not captured because they were made from a different account and did not reference the contract number.	
10 Sewer Group 1 - SSES Contract D	\$5,755,395	\$6,797,883	\$3,909,945	\$6,797,883	\$1,845,450	\$0	One P.O. was omitted because it was not in Volume II (correction to both PMT and audit report figures).	
11 Rock and Vine Street Sewer Project	\$783,792	\$783,792	\$736,295	\$783,792	\$47,497	\$0	PMT added an omitted purchase order.	
12 Sewer Group 2 - SSES Contract D	\$2,174,937	\$2,174,937	\$2,347,598	\$2,347,598	(\$172,661)	(\$172,661)	PMT included retainage amounts that have not yet been paid.	
13 Indian Creek Segments 3 & 4	\$13,977,734	\$13,782,314	\$14,707,555	\$14,707,555	(\$729,821)	(\$925,241)	PMT included retainage amounts that have not yet been paid. Potential liquidated damages. Also, one P.O. was not included in Volume II. P.O. costs are split with another project.	
14 West Area CSO Treatment Plant	See Footnote 1		\$1,460,362	\$7,432,204	Unknown	(\$379,910)	PMT figures included expenditures after the date range. We incorrectly excluded an invoice.	
15 In trenchment Creek CSO Treatment Plant	\$6,969,464	\$7,052,294	\$6,070,311		\$899,154			

Project	Original MARS/G Totals	Revised MARS/G Totals	Original PMT Monthly Report (Volume II)	Revised PMT Monthly Report (Volume II)	Original Difference Between MARS/G and Volume II of the PMT Monthly Report	Revised Difference Between MARS/G and Volume II of the PMT Monthly Report	Reasons for Changes	Unexplained Variance	
16	Nancy Creek Tunnel	\$99,105,793	\$100,800,227	\$103,648,744	\$103,648,744	(\$4,542,952)	(\$2,848,518)	Includes over \$2 million in expenditures after February. One P.O. not in Volume II. Remaining unexplained variance of \$15,329.	\$15,329
17	Nancy Creek Pump Station	\$18,769,977	\$18,885,867	\$17,743,910	\$20,011,268	\$1,026,067	(\$1,125,401)	We incorrectly excluded an applicable invoice. PMT identified more expenditures for pre-design work.	
18	Greensferry Combined Sewer Separation	\$2,493,864	\$2,493,864	\$2,494,845	\$2,494,845	(\$981)	(\$981)	Small difference (under \$1,000).	\$981
19	McDaniel Combined Sewer Separation	\$3,061,259	\$3,061,259	\$3,062,012	\$3,062,012	(\$753)	(\$753)	Small difference (under \$1,000).	\$753
20	CSO Dechlorination West	\$586,523	\$586,523	\$586,544	\$586,544	(\$21)	(\$21)	Small difference (under \$1,000).	\$21
21	Sewer Group 2 - SSES Contract B	\$3,071,466	\$3,071,466	\$3,071,324	\$3,071,324	\$142	\$142	Small difference (under \$1,000).	\$142
Totals		\$242,048,849	\$243,363,785	\$243,712,803	\$248,817,129	(\$203,593)	(\$5,453,343)		\$17,226

Note: Values in red indicate negative numbers.

¹ These expenditures are grouped by Purchase Order under Intranchment Creek. The total value for both projects is reflected there.