



CITY OF ATLANTA

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AUDIT COMMITTEE
Fred Williams, CPA, Chair
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April 28, 2008

Honorable Mayor and Members of the City Council:

We conducted this performance audit in response to Resolution 08-R-0088. We focused on assessing whether the problems encountered in the first payroll run in Oracle had been corrected. We also determined the cause of these problems and assessed if appropriate steps have been taken to prevent these problems from reoccurring.

Our recommendations are intended to address the problems identified in the first payroll run in Oracle. The Department of Finance and the Department of Information Technology agreed with our recommendations, and their responses are appended to the report.

The Audit Committee has reviewed this report and is releasing it in accordance with Article 2, Chapter 6 of the City Charter. We appreciate the courtesy and cooperation of city staff throughout the audit. The team for this project was Gerald Schaefer and Damien Berahzer.

Leslie Ward
City Auditor

Fred Williams
Audit Committee Chair

Cc:

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Adam Smith, Chief Procurement Officer, Department of Procurement
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Audit Committee



CITY OF ATLANTA

City Auditor's Office
Leslie Ward, City Auditor
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April 2008

Why We Did This Audit

Employees did not receive direct deposits as expected on January 4th, 2008--the city's first payroll run from its new Oracle system--and some employees reported that they were not paid the amounts expected. The City Council passed Resolution 08-R-0088 requesting an audit review of all issues encountered during the first Oracle payroll run.

What We Recommended

Our recommendations are intended to address timekeeping errors and resultant overtime computation errors that continue to pose a risk to the city. Addressing this risk will require a collaborative effort among departments and divisions within departments, because the primary source of error is timekeeping, not the Oracle system.

The chief information officer should:

- Implement detect/validation controls focusing on the Kronos timekeeping system and its interface with Oracle. These controls should be automated to the extent possible and should cover all potential errors in reported hours.
- Facilitate the analysis of timekeeping errors that continue to occur in the Kronos system and work with the Controller to devise courses of action to address them.

The controller should:

- Establish and document a formal process to address errors identified during the detection process.
- Work with the Controller to devise courses of action to address continuing timekeeping errors in Kronos.

Please contact Gerald Schaefer at 404.330.6876 or gschaefer@atlantaga.gov for more information.

Performance Audit:

Review of the Oracle ERP First Payroll Run

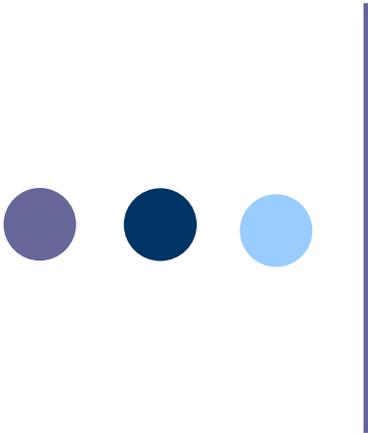
What We Found

Four types of errors affected the city's first payroll run in Oracle: breakdown in communication between Wachovia Bank and city staff; incorrect mileage reimbursement; overtime overpayments; and underpayment of some employees. Of these errors, only incorrect mileage reimbursement was specific to the Oracle system. While overtime computation poses an ongoing risk to the city, the city has addressed the other payroll errors.

- Wachovia Communication breakdown: Wachovia failed to inform the city that an error in the payroll file had suspended processing. The error resulted from the Oracle implementation team's change to the file header information. However, had Wachovia followed its own protocol to inform the city that the file didn't process, the city could have identified and resolved the error before pay day.
- Incorrect Mileage Reimbursement: The implementation team incorrectly coded the mileage reimbursement rate within the Oracle system as \$40 per mile instead of 40¢ per mile, resulting in overpayment of about \$375,000 to 18 employees. The city identified and corrected the error and has recovered all but approximately \$41,000 mistakenly paid to two of the employees.
- Overtime Overpayments: Overtime was miscalculated for nearly 1,700 employees due to improper data entry into the Kronos timekeeping system. Payroll staff identified and corrected errors for 91 employees before pay day, preventing overpayments of approximately \$74,500. However, staff did not identify errors affecting an additional 1,583 employees who were overpaid for a total of 18,734 hours, at an estimated cost of \$242,680. The city provided additional training to timekeepers, and our analysis of a subsequent pay period found a 95% reduction in errors. However the payroll process is still vulnerable to timekeeping errors. The city intends to recover overpaid amounts for all payroll periods to date.
- Underpayment of Some Employees: Some employees were underpaid due to incomplete time records or classification discrepancies. Oracle logic prevented employees who are filling exempt positions out-of-class from earning overtime. Also, some time keepers were unable to complete employees' time records because they were locked out of Kronos or could not access records due to chart of accounts conversion errors. These errors were corrected on a case-by-case basis.

Management Responses to Audit Recommendations

Summary of Management Responses	
Recommendation:	<p>1. The Chief Information Officer should implement detect/validation controls.</p> <ul style="list-style-type: none"> ● Focus for these controls needs to be on the Kronos system as this is where the errors are occurring. ● These controls should be automated/semi-automated. <p>Checks should analyze all errors (OT, UXT transfers, Regular time over 80 hours etc.).</p>
Department:	Information Technology Agree
Response & Proposed Action:	<p>DIT will write SQL queries to compare Kronos data with the csv file to Oracle to highlight errors prior to the final payroll processing, the results of which will then be forwarded to payroll resources for review and action.</p> <p>Once payroll and COA auditors sign off on the validity of the data, DIT will create Discoverer reports in E-Business Suite, which will check for potential payroll errors.</p> <p>DIT will collaborate closely with payroll resources to analyze and trend data when necessary and, when requested, will include additional pay code errors.</p>
Timeframe:	DIT has created the queries to run against the archived payroll data to be verified by COA auditors. These result sets will be available by May 2 at the latest. Data verification is still outstanding.
Recommendation:	<p>2. The Controller should establish a formal documented process to address errors identified during the detect/validation process.</p> <ul style="list-style-type: none"> ● This process answers the question: "What is the best way to deal with errors in overtime payment now that they have been identified". ● This process should be a collaborative effort between DIT developers, Kronos, and Payroll groups.
Department:	Finance Agree
Response & Proposed Action:	<p>Notifying timekeepers that correction is needed in Kronos before the file can be loaded to Oracle should be included in the process. Quick action is imperative for the payroll team to meet processing deadlines.</p>
Timeframe:	Process in place by 05/02/08
Recommendation:	<p>3. The Chief Information Officer should facilitate the analysis of errors that occur or continue to occur in the Kronos system and work with the Controller to devise courses of action to address recurring misuse.</p>
Department:	Information Technology Agree
Response & Proposed Action:	<p>Once payroll and COA auditors have verified a sample of data, Discoverer reports will be created based on specifications by payroll and finance.</p> <p>DIT will collaborate closely with payroll and finance to analyze and trend time data, and is currently working with an experienced HR trainer in an effort to improve the in-house Kronos training.</p>
Timeframe:	New query development may take several weeks, but once the results have been validated, Discoverer development and testing can be completed in 10 days.



Review of the Oracle ERP First Payroll Run

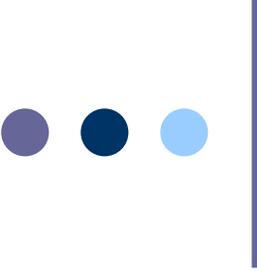
City Auditor's Office

Leslie Ward, City Auditor

Amanda Noble, Deputy City Auditor

Audit Team: Damien Berahzer and Gerald Schaefer

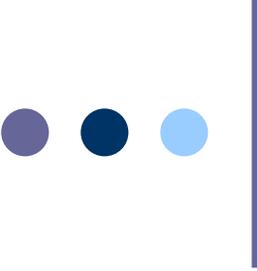
April 30, 2008



Reasons for Audit

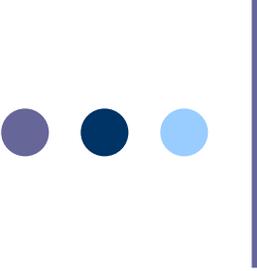
The City Council passed resolution 08-R-0088 requesting analysis of what went wrong in the new payroll system and why because:

- Employees did not receive direct deposits as expected
- Some employees were not paid the amount expected
- Payroll division noted overpayment of some employees with overtime



Audit Objectives

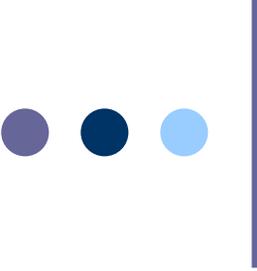
- What problems occurred with the first payroll run in Oracle?
- What caused these problems to occur?
- Have appropriate steps been taken to prevent these problems from recurring?



Audit Scope & Methodology

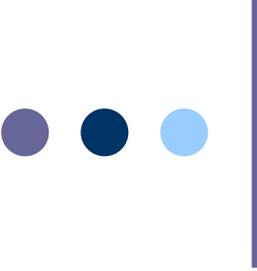
- Reviewing test files and project plan documents
- Reviewing Kronos training materials and attendance records
- Reviewing daily and weekly Oracle implementation status reports
- Analyzing payroll data, Kronos data, and ACH files
- Interviewing city staff and consultants and Wachovia Bank officials
- Reviewing the results of Wachovia's internal review

We conducted this audit in accordance with generally accepted government auditing standards.



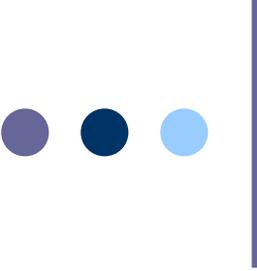
What problems occurred with the first payroll run in Oracle?

- Error in processing the ACH file sent to Wachovia
- Some employees on the payroll received \$0 direct deposit advices
- Inaccurate mileage reimbursement calculation resulted in overpaying 18 employees about \$375,000
- 1,674 employees were overpaid an estimated \$317,000 in excess overtime
- Some employees did not receive expected overtime for extra hours worked



What caused the bank processing error?

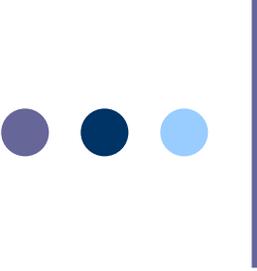
- Lack of communication between the city and Wachovia
 - City changed file header information without notifying Wachovia
 - Wachovia operator failed to follow protocol to notify the city that the file suspended without processing
- Incomplete testing
 - Tested file transmission, but not processing before first payroll



Has the city fixed the problem?

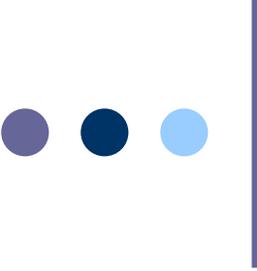
- The city and Wachovia have worked collaboratively to test the file format
- Wachovia conducted and reported on an internal review of where the process failed
- Wachovia acknowledged its responsibility for failing to follow protocol and issued an apology to the city

These steps appear adequate.



What caused some employees to receive \$0 pay advices?

- Time lag from conversion of data from PeopleSoft to Oracle
- System worked as intended
- One-time problem



Why were employees overpaid for mileage reimbursements?

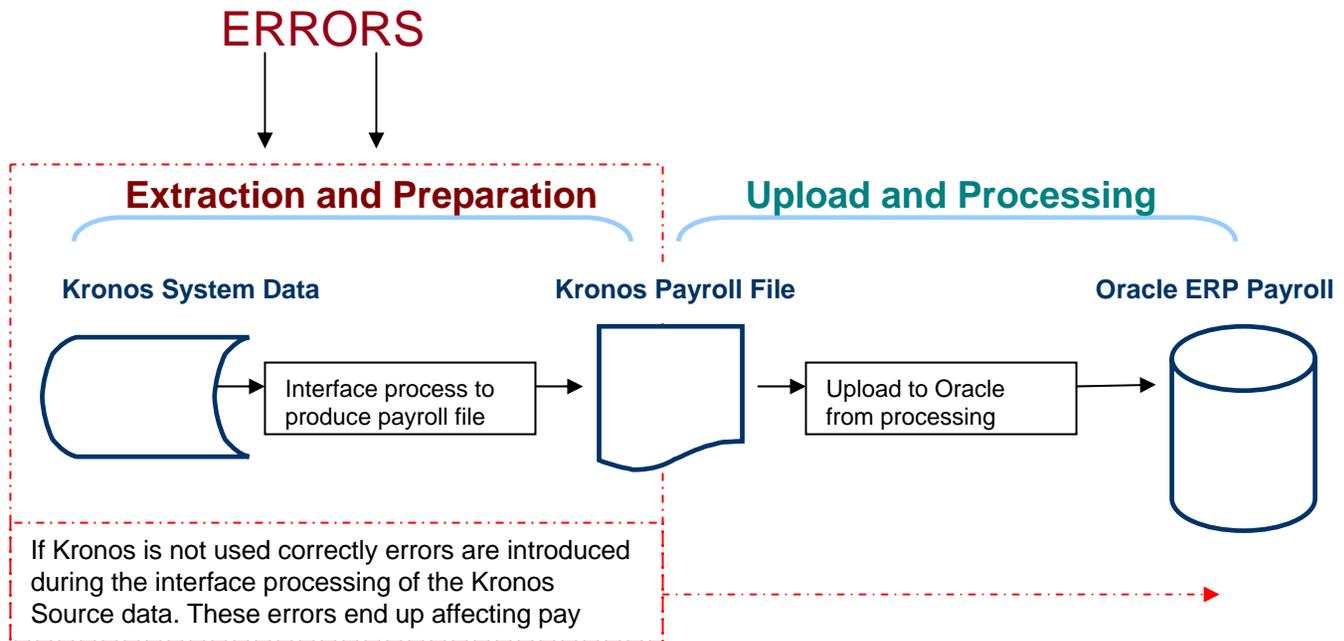
- Programming error set reimbursement rate at \$40.00 per mile instead of \$0.40 per mile
- The city discovered the error, which overpaid 18 employees by \$375,296
- Programmers have corrected the calculation
- The city has recovered all but about \$41,000 of the overpayments

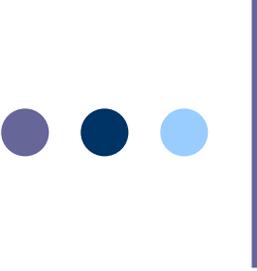
What caused overpayment of overtime?

- Timekeepers not using Kronos correctly
- Informal workarounds
- Insufficient testing
- Poor training attendance

	Total	Minimum Number Not Attending	% Not Attending
Time Keepers	389	177	45.50%
Approvers	447	317	70.90%

Overtime miscalculation was not caused by the Oracle system

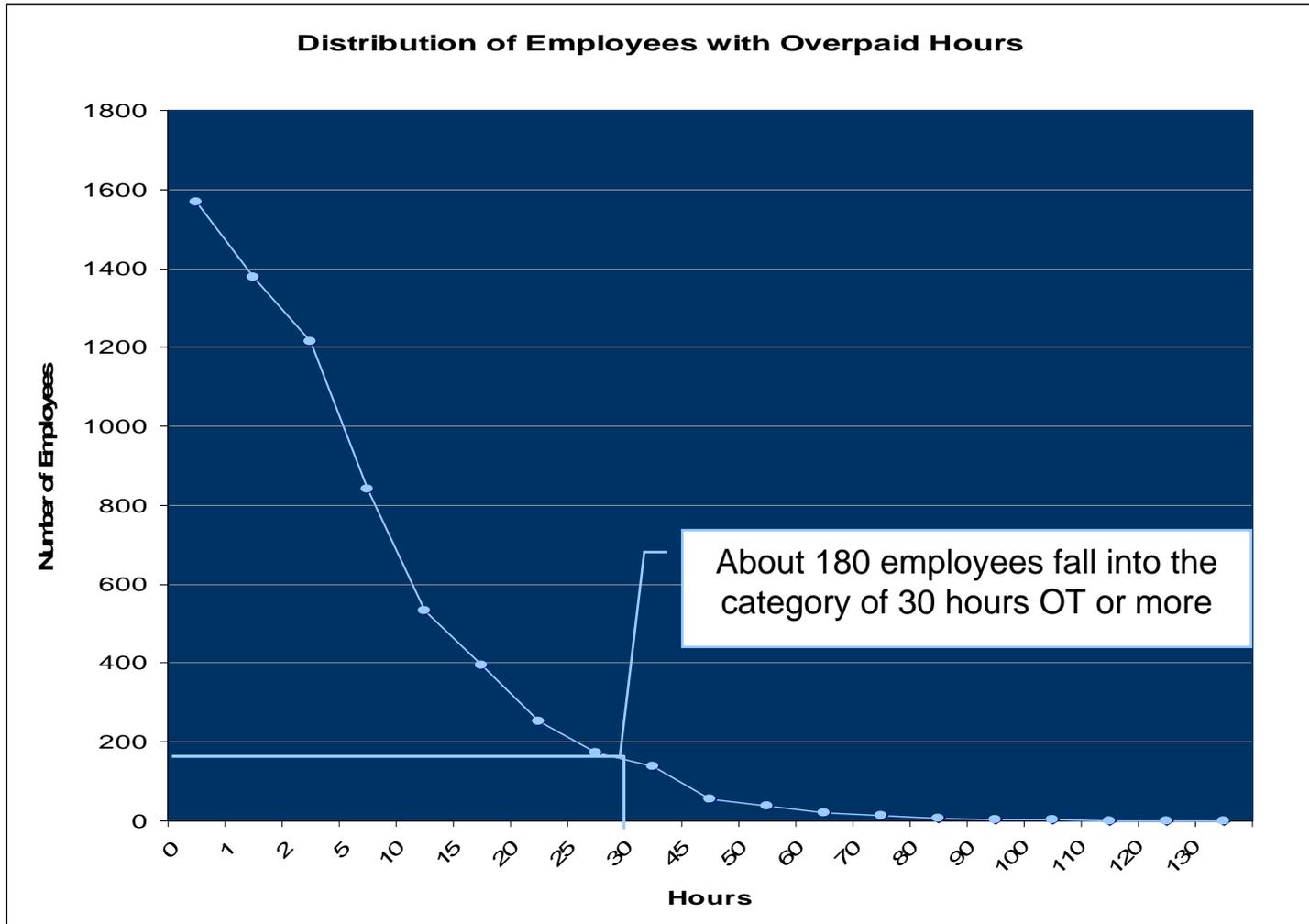




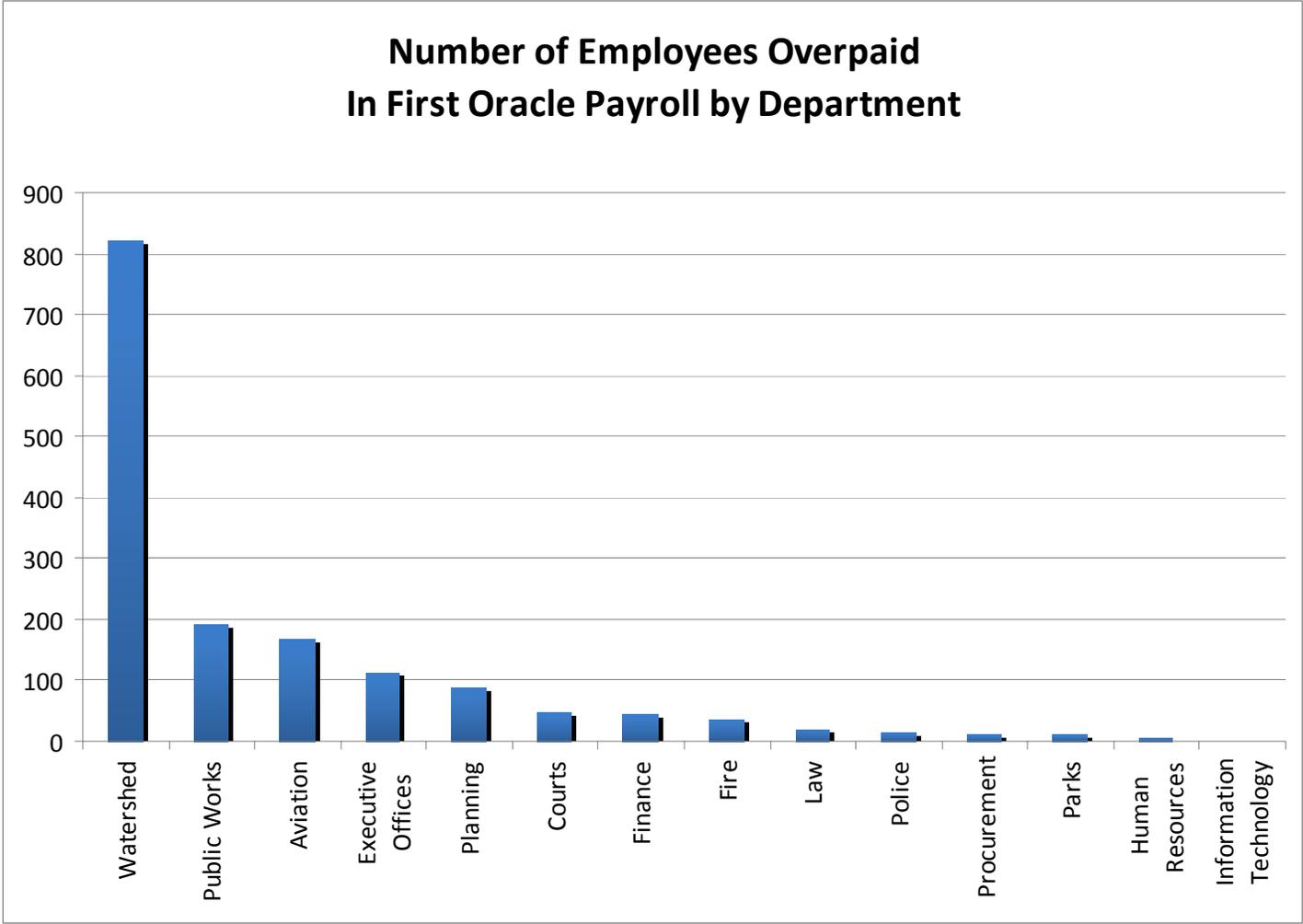
Has the city fixed the problem?

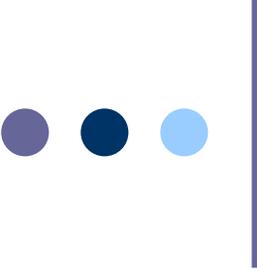
- Finance's method to identify overpayments focused on high payments to individuals
- Finance identified overpayments to 91 employees made adjustments to recover about \$74,450
- We identified another 18,734 excess overtime hours paid to 1,583 employees for an estimated cost of \$242,680

Distribution of overpaid employees by number of hours overpaid



Distribution of overpaid employees by department

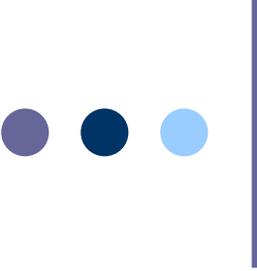




Has the city taken steps to prevent excess overtime payments from recurring?

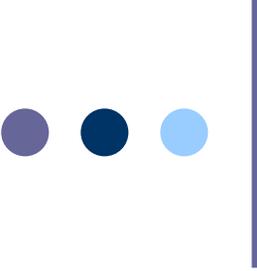
- Additional training reduced the occurrence of errors but cannot eliminate them
- Managerial approval is not sufficient to prevent errors
- Manual detection efforts are inefficient

	First Payroll	03/14/2008 Payroll	Reduction
Number of employees overpaid	1,583	145	90.8%
Total Hours of overpayment	18,733.5	635.2	96.6%
Estimated cost	\$242,680	\$8,625	96.5%



What caused some employees to be underpaid?

- Some timekeepers had problems accessing the system and could not update employee information resulting in some employees not being paid fully
- Some employees' information was not accessible in Kronos due to changes in the chart of accounts
- Some employees filling exempt positions out-of-class were not paid overtime for extra hours worked



Recommendations

- The Chief Information Officer should implement detect/validation controls
 - Focus for these controls needs to be on the Kronos system as this is where the errors are occurring
 - These controls should be automated/semi-automated
 - Checks should analyze all errors (OT, UXT transfers, Regular time over 80 hours etc)
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