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**Audit Report**

**AFS3 Data Reliability**

**February 26, 2008**

Office of the City Auditor  
Austin, Texas

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# City of Austin



## Office of the City Auditor

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Date: February 26, 2008  
To: Mayor and Council  
From: Stephen L. Morgan, City Auditor  
Subject: AFS3 Data Reliability

I am pleased to present this audit report on the reliability of selected data reported in the City's financial system of record, AFS3. Our objectives were to assess selected controls over reliability, and to test the reliability of selected Citywide and activity level data. An underlying purpose of the audit was to determine the ability of the auditors in the Office of the City Auditor to rely on AFS3 financial data for use in audits.

The results of our work show that there are a number of controls in place to support reliability, and our analysis of selected Citywide data inside and outside of the system indicated reliability. However, transaction testing at the level of activity expenditures indicated problems with reliability in transaction recording and the need for improved department level input and monitoring controls.

We have issued 15 recommendations for improvement. Management of the Controller's Office, Fleet Services, Austin Water Utility, the Law Department, and the CFO have concurred with and begun addressing the audit recommendations. We appreciate the assistance and cooperation of the management and the staff in all of these organizations in completing this work.

Stephen L. Morgan, CIA, CGAP, CFE, CGFM  
City Auditor

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## COUNCIL SUMMARY

The purpose of our audit was to assess the reliability of selected financial data from the City's new financial accounting system. The results of our audit provide some limited assurance of financial data reliability of the new AFS3 system in selected areas, although we identified some areas where improved controls are needed. Further assurance is expected from the work of the External Auditor on the FY07 financial audit and associated systems review work, and as management and departments continue to address implementation issues after the first year of implementation. OCA will consider these and other issues when developing its FY09 Service Plan.

We found a number of controls in place to support financial data reliability overall. These controls ranged from security and access controls to system assurance jobs, vendor payment controls, and reconciliation procedures. In addition, we confirmed the accuracy and completeness of Citywide expenditure payments recorded in AFS3 against checks clearing the City's main cash disbursement bank account. We also confirmed the accuracy and completeness of payroll expenditures recorded in AFS3 compared to Banner payroll system output. In addition, we confirmed the reliability of Citywide AFS3 data in selected reports.

However, based on the two activities we sampled, we found the need for improved controls at the departmental level, at the Central Accounts Payable level, and with interface transactions (transactions uploaded directly into the system from other systems, in the form of output files). Activity-level financial data reliability varied for the two activities we tested, when comparing reported purchasing expenditures in AFS3 to source documents and systems. We found one of the two activities we tested for the most part accurate but with control issues, and one inaccurate, based on our transaction sample.

We found several issues that warrant further consideration during the course of our work. Following the FY07 financial statement audit, OCA will assess and may propose further audit work on AFS3 for its FY09 service plan. In the meantime, OCA will continue to be required to verify the reliability of activity-level expenditure information or other financial information if it is the primary evidence for significant audit findings.

We made 15 recommendations: five to the Controller's Office, one to the Law department, five to Austin Water Utility, three to Fleet Services, and one to the CFO. Management concurred with all of them.

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## ACTION SUMMARY AFS3 DATA RELIABILITY



<b>Recommendation Text</b>	<b>Management Concurrence</b>	<b>Proposed Implementation Date</b>
01. To ensure that activities of AFS3 privileged and super users are appropriate and authorized, the Controller should establish procedures, mechanisms, and responsibility for monitoring the system activity of users with override or super-user authority and alterations to system data other than through the application. In addition, the Controller should work with technical staff and the vendor to identify and evaluate pros and cons of implementing strengthened automated system controls to support such monitoring.	Concur	Planned May 2008
02. To support efficient and effective review of error resolution from systems assurance jobs, the Controller should work with the vendor to create a summary report or centralized log of errors to record information on disposition and review of errors, and establish a periodic review of the log to be used for analysis.	Concur	Planned April 2008
03. To ensure effective and efficient vendor payment processing using 3-Way Match, the Controller should continue to work with departments in resolving issues with 3-way match and vendor payment timeliness.	Concur	Implemented December 2007

04. To ensure that Law Department vendor payments are on time, accurate, and have appropriate supporting documentation, the Director of the Law Department should ensure that payment review and tracking procedures are effective. In addition to the Invoice Tracking system recently implemented by the Law Department, such controls should include supervisory or review steps to detect and correct payment issues before payments become delinquent, as well as executive monitoring tools and procedures for knowing that payment processing is effective.

Concur

Underway  
July 2008

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| <p>05. To ensure the accuracy and reliability of payments and recorded payment information processed by City departments and Central Accounts Payable (CAP), the Controller should ensure the control improvements identified by CAP are fully implemented:</p> <ul style="list-style-type: none"> <li>a. Strengthening controls to prevent releasing checks with incorrect vendor name by requiring a Controller's Office staff member to re-verify the vendor name and address one final time before releasing the check;</li> <li>b. Providing guidance to City departments to make sure they are matching vendor names and addresses as they appear on the invoice and the remit-to address; otherwise, CAP will return the documents to the department for correction;</li> <li>c. Creating a daily report that searches for different payment documents with identical invoice numbers that have different invoice line number references, to identify potential duplicate payments and prevent them from being released; and</li> <li>d. Providing training as needed for CAP and affected department staff that emphasizes learning from mistakes.</li> </ul> | <p>Concur</p> | <ul style="list-style-type: none"> <li>5a. Implemented August 2007</li> <li>5b. Implemented September 2007</li> <li>5c. Underway May 2008</li> <li>5d. Underway March 2008</li> </ul> |
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| <p>06. To ensure that activity expenditures are reasonable, appropriate, and authorized, the Director of the Austin Water Utility should ensure that procedures, tools, system access, and training as needed, are provided to support effective monitoring of activity expenditures. In particular, this should include clarifying roles and responsibilities of the AWU Fleet Liaison, AWU financial staff, and AWU activity managers in verifying fleet billings and resolving questions or issues.</p>  | <p>Concur</p> | <p>Implemented<br/>January 2008</p> |
| <p>07. To ensure the accuracy and correctness of Fleet charges to Fleet user departments and individual activities that are charged through automatic uploads to AFS3, the Fleet Officer should:</p> <ul style="list-style-type: none"> <li>a. Establish a process for ensuring vehicle assignments to departmental accounts are consistent between M4 and Wright Express systems, and that updates are made to both systems as vehicle acquisitions, transfers, and retirements are made, with review and verification on the input step.</li> <li>b. Establish responsibility for reviews to ensure that charges to departments are accurately calculated and that a reconciliation is performed between the billed charges and what is posted to AFS3; and establish monitoring procedures to ensure such reviews and reconciliations are performed.</li> <li>c. Assess and revise financial staff organization and roles and responsibilities to provide for sufficient segregation of duties and review of transactions, clarifying operational/financial ownership responsibilities for data quality supported by technical data support roles and responsibilities.</li> </ul> | <p>Concur</p> | <p>Underway<br/>March 2008</p>      |

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| <p>08. To ensure Fleet billings are accurate and correct and that Fleet is able to resolve billing issues by month-end each month, the Fleet Officer should:</p> <ul style="list-style-type: none"> <li>a. Establish documented procedures and/or service agreements with departments for resolving fleet charging issues, with notification and response times clarified.</li> <li>b. As part of these agreements, establish documented departmental Fleet Liaison roles and responsibilities to include assistance in resolving fleet charging issues with departments, and require departments to identify single points of contact (SPOCs) for resolving billing issues.</li> <li>c. Establish or revise documented policies and procedures to clarify documentary support required for transactions, including correcting journal vouchers.</li> </ul> | <p>Concur</p> | <p>Underway<br/>April 2008</p> |
| <p>09. To ensure departments are able to verify Fleet charge accuracy &amp; appropriateness to departmental activities and accounts, the Fleet Officer should:</p> <ul style="list-style-type: none"> <li>a. Work with Fleet user departments to assess departmental needs for reporting to allow verification of fleet charges to departments, and develop such reporting and distribution of reports to address identified needs.</li> <li>b. Notify departments when charges are made that are not supported by established charging arrangements and include this notification in documented procedures for resolving charging issues.</li> </ul>   | <p>Concur</p> | <p>Underway<br/>March 2008</p> |

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| <p>10. To ensure Fleet's ability to effectively and efficiently manage the billing aspect of Fleet's services to fleet user departments, the City's CFO should coordinate with responsible Assistant City Managers to require that as a condition of use of fleet vehicles and services, departments must establish appropriate budget lines for fleet charges and work with Fleet staff to ensure billing issues are resolved throughout the year. The CFO should also establish monitoring tools (such as performance measures, exception reports, or escalation notification procedures) to ensure these objectives are achieved.</p> | <p>Concur</p> | <p>Planned<br/>March 2008</p>    |
| <p>11. To ensure AWU Warehouse interface to AFS3 is functioning effectively, the Director of AWU should continue working with the Controller's Office to</p> <ul style="list-style-type: none"> <li>a. resolve identified issues, including synchronization, stock balances, pricing, and warehouse-specific information;</li> <li>b. ensure software changes are fully tested before being put into production; and</li> <li>c. coordinate on the timing and strategy for possible Maximo integration or conversion to other software to meet identified functional needs.</li> </ul>   | <p>Concur</p> | <p>Underway<br/>January 2008</p> |
| <p>12. To ensure that incomplete uploads (past and future) and suspense transactions are identified and resolved in a timely manner, the Director of AWU should establish a systematic approach and apply sufficient staffing to monitor current upload activity while reviewing and resolving any issues with past uploads from FY07 since the ASAP database was modified.</p>  | <p>Concur</p> | <p>Underway<br/>March 2008</p>   |

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| <p>13. To ensure all warehouse transactions are appropriate and authorized, the Director of AWU should ensure sound inventory management practices are in place, including segregation of duties in requesting and approving inventory issues and/or compensating controls such as reconciliations; use of authorized signature lists for all departments using inventory from the warehouse; and monitoring to ensure these controls are effective.</p>   | <p>Concur</p> | <p>Underway<br/>March 2008</p>    |
| <p>14. To ensure the reliability of transactions from in-bound interfaces to AFS3, the Controller should establish standard requirements for interfaces, to be provided within a reasonable time by interface owners, including documented procedures for monthly reconciliation of the intended billing from the interface to the actual postings in AFS3, and providing the results of these reconciliations to the Controller's Office each month for identification of any needed corrections the following month.</p> | <p>Concur</p> | <p>Planned<br/>May 2008</p>       |
| <p>15. To ensure the reliability of Procard transactions, the Director of AWU should ensure that all Procard documentation meets established requirements for the Procard program and that supervisory monitoring is sufficient to detect and correct unsupported transactions.</p>  | <p>Concur</p> | <p>Underway<br/>February 2008</p> |

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## BACKGROUND

**Importance of financial data reliability.** To rely on financial data, either for use in audits or for use by decision makers, the data should be reliable, including accuracy, completeness, and validity. Accuracy is expected in the recording, documenting, calculating, summarizing, and reporting. Completeness speaks to the inclusion of all relevant data. Validity indicates the data represents what it purports to be, including transactions being authorized and appropriate for the account charged. Controls should be in place to ensure this reliability. With processes enabled by automated systems, controls should include a combination of automated and procedural controls.

**Government auditing standards on data reliability in audits.** In accordance with Generally Accepted Government Auditing Standards (GAGAS), OCA auditors must verify the reliability of information that serves as primary support for significant audit findings. GAGAS also require that OCA verify the ability to rely on the work of others, for example, if relying on the work of the external auditor when using financial data in audits.

**Financial data used in OCA audits.** The use of financial data in OCA audits may range from primary evidence for significant findings, to corroborative evidence for findings, to background or contextual information for non-financial audit objectives. Various levels of testing and assurance are needed in verifying reliability of data for these diverse purposes as audit evidence. In OCA audits of City operations, programs, and activities, we frequently use activity cost information either as context or as part of the audit analysis and conclusions. Thus, activity-level cost information is important financial information to validate. Furthermore, the City's budget is organized by department, program, and activity for operating departments, increasing the importance of activity-level cost information in City resource allocation decisions and assessment of cost effectiveness of program results.

**The City's upgrade to Advantage 3 (AFS3) was a major system upgrade.** The City upgraded its financial accounting system from Advantage Financial System 2 (AFS2) to Advantage Financial System 3 (AFS3) with go-live of October 1, 2006 for Fiscal Year 2006-2007 ("FY07"). The City's fiscal year runs from October 1 through September 30. The formal name for the upgraded system is the Austin Integrated Management System (AIMS), though the system is informally referred to internally as AFS3. The upgrade was implemented by a project team comprised of City staff from Communications and Technology Management (CTM), the Controller's Office, and multiple City departments, along with the vendor CGI-AMS. Some key changes in the new system included the move from a mainframe to a web-based system, changes in the City's accounting structure, and integrated security and workflow controls over transactions. Past experience has shown that whenever the City implements a new accounting system, auditors as well as staff and management need to come up to speed on the system, and the learning curve is significant.

**Work of external auditors.** The City's external auditor, KPMG, issued its audit of the City's FY06 financial statements on October 19, 2007, issuing an unqualified opinion but citing some control issues from a City investigation of allegations regarding the Austin Convention Center Department's business and accounting practices, which noted a lack of sufficient controls regarding the payment of certain expenditures. The external auditor recommended that the City enhance the control structure for ACCD to ensure adequate segregation of duties, and management reported that it had taken various corrective actions to address the issues identified. The external auditor's FY06 work covered the period from 10/1/2005 through 9/30/2006, and thus does not speak to controls over the AFS3 system upgrade which was implemented with the start of the next fiscal year, FY07, which began 10/1/2006.

We have limited knowledge of KPMG's planned work for the audit of FY07 financial statements and will keep abreast of its progress and planned procedures. Generally speaking, when a major system upgrade takes place, the external auditors perform reviews of system controls to support their reliance on controls when opining on the financial statements. In general, the external auditors give an opinion on whether the City's financial statements are reasonably presented at the major fund level. Additionally, the external auditors provide assurance in some cases below the major fund level for federal grants through the federal single audit. We look forward to the results of the external auditors' FY07 audit for providing additional assurance on the new system in these areas.

## **OBJECTIVES, SCOPE, AND METHODOLOGY**

### **Objectives:**

1. Assess selected AFS3 system and procedural controls over data reliability and fraud prevention.
2. Assess the reliability of the following AFS3 data, through data analysis:
  - a. Citywide payments made to vendors from AFS3;
  - b. Data exported from AFS3 to the following reporting options: DXR reports and Data Warehouses; and
3. Assess the reliability of selected activity-level purchasing information from AFS3, through transaction testing.

An underlying purpose for this work was to determine the extent to which OCA can rely on financial data from AFS3, for purposes of using financial data in OCA audits.

### **Scope:**

1. Selected implementation activities designed to provide control over data reliability, (contract requirements, prototyping activities, interface plans, data conversion plans, reporting plans, and testing plans), and selected controls in place with the newly implemented system.
2. Data analysis:
  - a. All checks clearing the bank for the first half of FY07 for bank code 23, the City's primary bank account for cash disbursements.
  - b. Selected DXR Reports ("Digital Express Reporting" custom reports of AFS3 data, generated from AFS3 output) for the first half of FY07, and financial information from Data Warehouses for two activities selected for transaction sampling, compared to corresponding AFS3 data.
  - c. Payroll expenditures recorded in AFS3 for the first half of FY07.
3. Transaction testing of reported activity expenditures: purchasing transactions for the first six months of FY07 from two randomly selected activities out of approximately 650 activities Citywide, and department-level and centralized financial controls associated with problems found.

### **Methodology:**

1. Interviews with management and staff and document reviews pertaining to controls over reliability performed or established for AFS3.
2. Data analysis:
  - a. Analysis of Citywide AFS3 payment data using ACL (Audit Command Language analytical matching software) on bank records of checks clearing the bank, to assess completeness and accuracy of payments recorded in the AFS3 accounting journal. We also conducted interviews with management and examined documents and electronic files to reconcile unmatched items.
  - b. Comparison of DXR report data and other reporting outputs sourced from AFS3, using ACL, to AFS3 accounting journal records.
  - c. Comparison of Banner payroll system output, using ACL, to payroll expenditures recorded in the AFS3 accounting journal.

3. Transaction testing: Random selection of one Enterprise Fund activity and one Support Services Fund activity: Austin Water Utility (AWU) Site Inspection activity (for the Water fund only; we did not include expenditures from the Wastewater fund for this activity) and the Law Department's Civil Litigation activity. We selected a statistical sample of transactions from the Law Civil litigation activity, and we vouched reported expenditures to source documents. For the AWU Site Inspection activity, we reviewed the full population of transactions and vouched them to source documents.

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

## AUDIT RESULTS

The results of our audit provide some limited assurance of financial data reliability in selected areas, although there is also a need for improved controls in some areas. Further assurance is expected from the work of the External Auditor on the FY07 financial audit and associated systems review work, and as management and departments continue to address implementation issues after the first year of implementation. Issues for further study will be considered for OCA FY09 Service Plan. Meanwhile, OCA will need to continue to verify the reliability of financial information in audits when used as primary support for significant findings.

### **We found a number of system and procedural controls in place to support AFS3 financial data reliability overall.**

A number of system controls, some of them introduced with the new system, have been implemented to support the reliability of financial data, from security and access controls to system assurance jobs, vendor payment controls, and reconciliation procedures. Through our limited procedures, we gained an understanding of a number of controls and verified they were in place and being performed, although we did not do sufficient testing to fully verify their effectiveness. Some questions and issues for further consideration remain. Further assessment is expected with the external auditor's work on the FY07 financial audit.

**Security controls are in place to protect against unauthorized access to and alteration of data.** During our interviews, management indicated that the security for the AFS3 system is strong. According to the City's Communications and Technology Management (CTM) Information Security Manager, security features in place to ensure the AFS3 system and its data are secure include: security policies, security training, mandatory password change, automatic locking of workstations to prevent unauthorized access, limiting the use of generic accounts to training facilities only, firewalls, intrusion prevention devices, daily exception reporting, antivirus software, redundant processes, and disaster recovery procedures. We gained an understanding of these controls and procedures but did not test to verify their effectiveness.

Further assurance of security over financial data is provided by the credentials, standards, and best practices in place for security. According to the CTM Information Security Manager, the credentials of the Security team include Certified Information Systems Security Professional (CISSP), Certified Business Continuity Professional (CBCP), and Red Hat Certified Technician (RHCT). In addition, according to management: The Security team follows the standards in the CISSP domains, along with the Health Insurance Portability and Accountability Act (HIPAA), Utility Regulations, and Homeland Security regulations where appropriate. To ensure best practice is followed, the Security team compares their practices to the CISSP domain knowledge base. Supervisory reviews to ensure basic procedures are followed include daily intrusion prevention system checks; monthly security patches and antivirus audits; and annual network and Firewall audits. Through pertinent investigations, upper level management

evaluates the effectiveness of policies and controls. The CIO sets the priorities for Security and for Security projects that will resolve security issues. Compliance issues are escalated if the Information Security Manager is unable to gain compliance.

**Training is required for all AFS3 users.** New users must complete required training before receiving AFS3 log-in. The Controller's motto at the time of implementation was "No training, no sign-on." Training requirements are determined by user role and include AFS3 prerequisites (on-demand computer training), as well as instructor-led training.

**Controls are in place over user security profiles and workflow approval.**

Our work indicates that the user profile and workflow controls in AFS3 support segregation of duties and reduce the risk of inappropriate user activity in the system. We studied AFS3 user access files provided by the Controller's Office containing the security access roles and approval roles assigned to AFS3 users, organized by department.

There are two major types of access: security and approval. Security access roles determine which documents can be viewed and created by an individual user, while approval access roles determine a user's approval authority. There are over 250 different security roles in the AFS3 system. Each of them pertains to a specific document or group of document types. Each role is very specifically defined (for example "Department Purchasing Data Entry" or "User with Scan Access Only"). AFS3 users are often assigned a number of security and/or approval roles; this allows for customization of access so that user roles are specific to job function and do not allow access beyond what users need for their job duties.

The AFS3 workflow approval process for each type of document requires a specific and predetermined sequence of approvers. Users with approval access can approve only documents originating from within their departments and are limited in the particular document types they can approve. Users cannot approve their own documents.

- **Overrides.** There are 33 users with "override" access, or ability to override system errors. Most have Level One access, which allows users to override a specific recurring error having to do with interface transactions. Two users have Level Eight access, which allows them to override "unusual and non-recurring" errors. Four employees, including the Deputy Controller and Finance Team Lead on the implementation, have Level 10 access, which allows overrides of budget controls. According to the Acting Controller, processing of Level Ten overrides requires agreement of both Controller's Office staff and Budget Office staff, and there is a specific documented process for performing these overrides.
- **Administrative Access (Super Users).** In contrast to override users, who can affect specific transactions, super users can make changes within system tables without going through the application functions. This ability is limited to a small number of Financial Services staff, most of whom work in information systems. According to the Acting Controller, there are processes by which stakeholders are involved in

decisions regarding specific actions by super users, and proposed solutions are tested before super users make changes.

Although procedures are in place for notification and review when actions by super users are needed, there is no post-review or verification that all super user activity went through the establish process; nor is there currently a mechanism for monitoring and identifying alterations to data that occur other than through the application. Although audit logging is in place for certain tables, management has indicated that due to resource constraints (memory and storage), there is no audit logging for super user activity outside of the application.

Management is in the process of exploring technical solutions internally and with the vendor for monitoring of such alterations to data. At the same time, management considers the risk of inappropriate activity of this nature to be low, due to the set of compensating controls in place to ensure that no super user oversteps the bounds of their authority or commits fraud against the City. For example, management indicates that not all super users have access to vendor registration or to payroll applications, and that reconciliations are performed at multiple levels (of check stock, issued checks to processed invoices, payment file to check register, manual wire/EFT reconciliation, vendor self-service system to financial system, etc.) to prevent a super user from simply altering the system data to perpetrate fraud.

Although a number of compensating controls are reported in place to offset this potential exposure, current IT security best practices indicate that monitoring at the level of the database and of direct modification to data is a potential vulnerability that is commonly left open. Technologies may be available to support such monitoring by installing a software add-on to the application. Management expressed concern that such customized modifications typically involve significant complexity, including potential performance impacts, and would need to be carefully evaluated.

### **Recommendation**

01. To ensure that activities of AFS3 privileged and super users are appropriate and authorized, the Controller should establish procedures, mechanisms, and responsibility for monitoring the system activity of users with override or super-user authority and alterations to system data other than through the application. In addition, the Controller should work with technical staff and the vendor to identify and evaluate pros and cons of implementing strengthened automated system controls to support such monitoring.

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**MANAGEMENT RESPONSE:** Concur. Controller will establish procedures, mechanisms and responsibility for monitoring super-user activity and work with our vendor to evaluate strengthened automated system controls.

---

**System Assurance Routines are in place to verify the integrity of data posted to the system.** AFS3 has several systems assurance routines in place to verify the integrity of the data posted to the system. These processes verify, among other things, that ledgers, journals, and other key catalogs and tables are in sync; debits and credits are equal,

outgoing payment records are correct, accounts receivable transactions have been posted correctly, and records have been summarized correctly from journals into the ledger. According to Controller's Office management, the systems assurance jobs are run on a scheduled basis in AFS3—nightly and every weekend, depending on volume of data and importance to overall system. The reports only display out of sync or out of balance conditions. There are some instances in which a false out of sync report is produced. The notification of errors is paged to senior management (the Deputy Controller) on a daily basis and significance is assessed. Management indicates that errors are corrected within a reasonable timeframe based on the significance factor.

The Deputy Controller (now Acting Controller) has been the one person reviewing the assurance reports since AFS3 went live. These responsibilities are being transitioned to other members of senior management in the Controller's Office. Errors are corrected through a variety of methods, and corrections are documented and filed with the exception report that noted them.

We reviewed a sample of system assurance reports and error corrections in our scope period and found the procedures were being followed as described, although in some cases documentation of resolution was inconsistent. However, errors are not centralized in a log showing their disposition. As a result, a manual review is required of many pages to locate disposition of errors. A centralized log would facilitate more effective and efficient post-review of corrections. Not having a centralized log of error resolutions makes it difficult to monitor the appropriateness of issue resolution after the fact and to easily assess and determine which areas need improvement.

In addition, although there is an approval process for fixes made through this process, there is no post-review to ensure that all fixes made were authorized according to the established process. Not having a post-monitoring process of fixes of this nature and of other types of super user activities and direct table edits may leave the system data itself open to unauthorized alteration without detection. As discussed earlier, it is recommended that monitoring procedures be put in place for such activities.

### **Recommendation**

02. To support efficient and effective review of error resolution from systems assurance jobs, the Controller should work with the vendor to create a summary report or centralized log of errors to record information on disposition and review of errors, and establish a periodic review of the log to be used for analysis.

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**MANAGEMENT RESPONSE:** Concur. Controller will develop a centralized error log for tracking and monitoring system assurance jobs.

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**System controls implemented with AFS3 are strong for controlling vendor payments, although departments have had some difficulty adjusting to the stringency of the controls.** When the City implemented AFS3, a new vendor registration system and automated 3-way matching was installed. The new vendor registration system, Vendor Self-Serve (VSS), allows staff and vendors with secure user

access to establish and update the individual vendor accounts that comprise the City's vendor list. Furthermore, the system creates an "audit trail" with which to track changes to vendor information. Each transaction records key system information about who made what change(s) on what date.

An important system control is that no direct edits to the VSS tables are allowed by regular staff or vendors, even though they may make updates to individual vendor accounts through the VSS. However, in certain limited cases, as discussed earlier in regard to super users of AFS3, direct edits are sometimes required for work-around purposes. According to management, these direct changes are currently secured to one individual in the Controller's Office and each change made in this manner is documented. We did not perform verification to ensure that is the case.

One key change that was implemented with AFS3 is a best practice to strengthen control over payments for purchases through a process called "3-Way Match." Basically, for departmental vendor payments to be approved, this system-enforced process requires exact matching of data between the purchase order, invoice, and receiving documents before payment is made. Values that must match include vendor information, commodity, quantity, and price. If the purchase order allows for partial payments, a check may be issued even if the full order is not received. If documents do not match, they must be modified by the creator. Exact precision is required to ensure that transactions do not reject automatically by the system, and to resolve transactions that are rejected because of mis-matched information.

Although this process is a best practice and provides strengthened control over accuracy of transactions and prevention of potential mispayments, departments have experienced difficulty in adjusting to the stringent control provided by 3-way match. This has resulted in delays in vendor payments in the first half of the fiscal year, resulting, for instance, in vendor cancellation of contracts with the AWU warehouse. AWU financial staff anticipate increasing Procard use to avoid vendor payment delays. The Controller is already aware of payment delays.

The 3-Way Match process, and what is needed to optimize its implementation in achieving a balance of control and usability, needs further assessment as departmental users and vendors move through the learning curve now into the second year of implementation.

**Recommendation**

03. To ensure effective and efficient vendor payment processing using 3-Way Match, the Controller should continue to work with departments in resolving issues with 3-way match and vendor payment timeliness.

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**MANAGEMENT RESPONSE:** Concur. Controller's Office has been and will continue to work with departmental staff regarding 3-way match and vendor payment timeliness.

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**Fraud Prevention Controls.** During the course of the audit, we took several steps to assess the risk, potential occurrence, and controls to prevent fraud, waste and abuse. As we did our transaction sampling, we found several "red flags" of potential irregularities.

We investigated each one in detail and obtained a satisfactory explanation for each case. We also found areas where the control environment could be strengthened. The control environment includes elements such as management's integrity and ethical values, operating philosophy and commitment to organizational competence. In one business unit, the internal control environment may be improved by encouraging employees to report suspicions of fraud. In another area, maintaining appropriate segregation of duties may be necessary to prevent misappropriation of goods. In both these cases, further study would be needed to determine any significant impact to the City's financial system.

We identified several controls to prevent fraud during interviews. For example, segregation of duties in the AFS3 system works as intended (and we saw no exceptions in our transaction testing); the level of access to AFS3 is strictly defined and limited to the function of the user, such as data entry or approval.

We interviewed several department managers, AFS3 users, and key financial staff using a standard questionnaire aimed at discovering potential fraud risk, as well as controls to prevent it. Respondents indicated that multiple prevention control are in place, including segregation of duties within the AFS3 system, error reports, ownership of the data and multiple queries that are run to discover irregularities. Some of these controls are new and were not used in AFS2. Even though additional steps add processing time difficulty, they considerably add reliability to the system. No knowledge, suspicions or opportunities of fraud were revealed during the interviews.

**AFS3 implementation controls over reliability appear to be sound.** OCA performed limited examination of early implementation activities for AFS3, including review of contract requirements, prototyping activities, interface plans, data conversion plans, reporting plans, and testing plans. Based on this limited work, the AFS3 project approach appeared sound, although a number of questions remained unresolved at the time of our work. Additionally, management's work on security and workflow were behind schedule and were not reviewed by OCA. As a result, our opportunity was limited in terms of providing assurance that system implementation activities would ensure AFS3 data reliability.

Two issues remain for further consideration: testing and conversion assurance. At the time of this report, we had not yet obtained a report from management on the results of system acceptance testing and issues that were unresolved at go-live. To the extent that unresolved issues from go-live still need to be addressed, this remains an issue for further study. Additionally, in regard to conversion of system data from AFS2 to AFS3, management initially indicated plans to engage an external reviewer to assess the data conversion effort and provide some level of assurance. Management indicated that because the external auditor would need to review conversion as part of their work on the financial audit, management decided to forego the expenditure of funds for a separate review. This also is an area for further study.

**We confirmed the accuracy and completeness of Citywide payments to vendors recorded in AFS3 against checks clearing the bank, of payroll expenditures recorded in AFS3 compared to Banner payroll system output; and we confirmed the completeness of Citywide AFS3 data in selected reports.**

Through our analysis of selected data output from AFS3, including vendor checks paid, payroll recorded, and reports representing transactions contained in the general ledger, we confirmed the presence of controls to ensure consistency of financial data.

**We have reasonable assurance that all checks clearing the City's main bank account for disbursements in the first half of FY07 were reflected as payments in AFS3 or in AFS2.** To verify that no checks were cleared for vendor payments that had not been processed through the financial system, we compared check information provided by the bank for bank code 23, the City's main cash disbursement account, to transaction information in the AFS3 Accounting Journal. Due to time lags in the clearing of checks through the bank, we expected that some of the checks clearing the bank during our scope period would be from AFS2, and the remainder should be accounted for in AFS3. We identified checks in the bank records that were not reflected in AFS3, and we determined that the majority of unmatched records were present as transactions in AFS2. We verified with the Controller's Office that the remaining unmatched records were due to bank posting errors that were subsequently corrected. Out of 44,157 checks cleared through the bank for bank code 23, we have reasonable assurance that all were reflected as payments in either AFS2 or AFS3.

In addition to the results of our analysis, management provided information on procedural controls in place, giving further assurance that no inaccurate or unsupported checks cleared the bank for the scope period we tested. The Controller's Office performs a full reconciliation each month after the bank performs its own reconciliation and error correction. The Acting Controller indicated that the reconciliation staff see very few exceptions in the process of matching check numbers and amounts to the month-end file the bank submits. Management further indicated that all differences are followed up on and that there is no allowable margin for error.

**We confirmed the accuracy and completeness of payroll expenditures recorded in AFS3 compared to Banner payroll system output, with qualifications regarding the limitations of our analysis.** We analyzed the output from the City's Banner payroll system for the first half of FY07. While we did not perform a data reliability assessment of Banner, which was implemented in 1997, we did use the output from Banner and compare it to the data in AFS3 to assess data reliability of the Banner/AFS3 interface. Based on the results of our analysis, we were able to verify over 99% of the records between Banner and AFS3 as matching. This may be considered sufficiently reliable. However, we are unable to give full assurance of the reliability of AFS3 payroll data, due to the limitations of our analysis.

Payroll makes up approximately 88% of the total number of expenditure transactions in AFS3. However, payroll makes up only about 26% of the total dollars that were expended by the City in the first half of FY07. During the first six months of FY07, there were 13 pay periods and 153,702 paychecks processed by the Banner system and the Payroll Office. On average, this represents approximately 11,823 employees (153,702/13) receiving a paycheck at any given time during the scope period. This compares reasonably to the City's budget document, in which there were 11,794 Full-time equivalents (FTEs) budgeted for FY 2007.

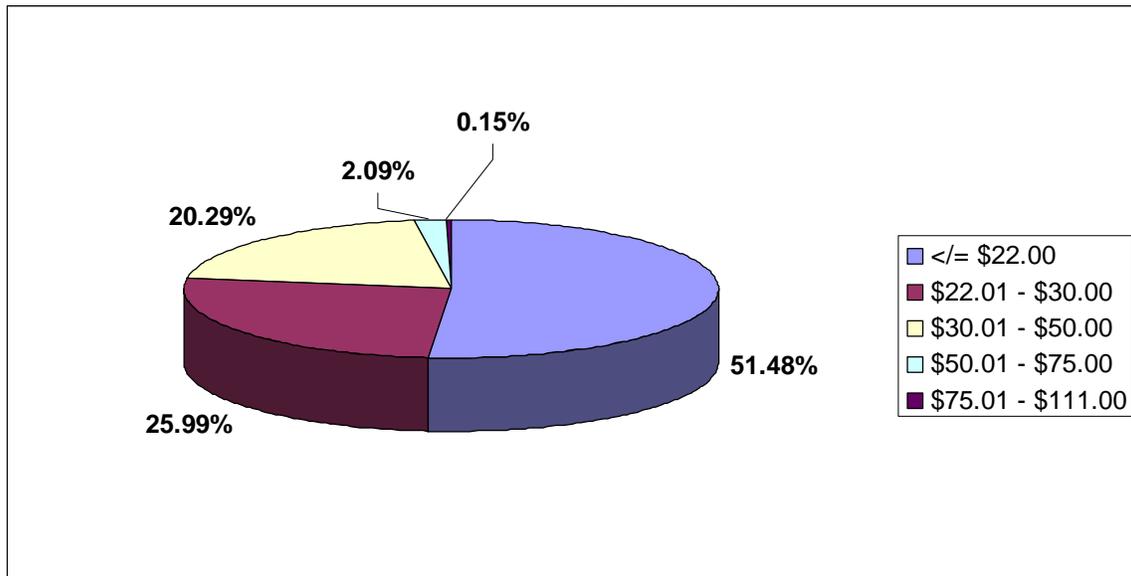
The total dollar amount of the payroll transactions recorded in AFS3 for the scope period equaled \$421,604,857. We compared these transactions to the data in the Banner payroll output files by unique employee identification number, pay period, and dollar amount. We found that out of the 153,702 paychecks compared, we were able to account for 153,335 (or 99.76%) of paychecks and 99.99% of dollars. 367 paychecks (153,702 – 153,335) were not fully reconciled. This assumes that 148 Banner paychecks, which were not posted in-scope in AFS3, were later posted accurately at their Banner amount of \$383,469. An issue for further study would be to verify this assumption. For the remaining 367 un-reconciled paychecks, the dollar variance from our analysis of the Banner records and the AFS3 posting was \$40,091 out of over \$421 million, representing a final variance of .01% of payroll dollars.

We are reasonably confident that this remaining variance is due to adjustment records which our methodology didn't effectively consider. The complexity of the analysis, data limitations in regard to verifying records posted outside of the scope period, and the time that would be required to verify the remaining the variance through examination of individual records would limit the benefit/cost of working to resolve the remaining variance. Although additional work will not be done due to time and resource limitations for this audit, nothing came to our attention indicating that any irregularities have occurred.

In discussing these results with management, they indicated that they reconcile payroll to the penny every pay period. In addition, management indicated that all payroll for FY07 had been reconciled in AFS3 on the cash side by verifying that the bank code for payroll had tied out. Management also provided evidence of the separate verification procedures performed by the Payroll Office and by the Controller's Office technical support staff for the Banner interface. In addition, management identified compensating controls over payroll including security in place over adjustment transactions, departmental and employee monitoring, and the budget process which scrutinizes prior year expenditures. Although we did not fully test the effectiveness of these compensating controls or the consistency of the verification procedures performed, based on the results of our analysis, we are confident that the payroll data in AFS3 is a sufficiently reliable representation of the Banner output for the period we examined.

Although we did not perform a data reliability assessment of the Banner system, the pay rates contained in the output file from Banner appear reasonable, based on our analysis of pay amounts and hours recorded. Exhibit 1 shows no City employee was paid an unreasonable hourly rate.

**EXHIBIT 1  
Hourly Rate for City Employees**



SOURCE: OCA analysis of rates from the City's Banner Payroll System for the first half of FY07.

The majority (51%) of City employees earn less than or equal to \$22.00/hr. Less than 1% of employees earn between \$75.01/hr and \$111.00/hr, and these employees are high-ranking City officials.

**We found three key Citywide DXR reports complete, compared to the AFS3 accounting journal.** Many users obtain financial information from AFS3-derived reports rather than from AFS3 itself. Three examples of such reports are the Digital Express Reports (DXR) that represent the general ledger:

- GA0003A-01, FYTD Detail General Ledger Transaction Report (Balance Sheet Accounts);
- GA0004A-01, FYTD Detail Expense Transaction by Unit; and
- GA0005A-01, FYTD Detail Revenue Transaction by Unit.

We tested the completeness of these three Citywide reports by comparing document ID numbers from the AFS3 Accounting Journal to the corresponding transaction record in the DXR reports. We confirmed that all transactions in the AFS3 accounting journal that should have been represented in one of these reports were, in fact, so represented. In addition, we worked in the opposite direction to verify that no transactions were present in the DXR reports that were not in the accounting journal. Overall, this analysis verifies the completeness of these Citywide DXR reports in terms of representing all transactions

that should be represented. However, we did not verify dollar accuracy or accounting structure roll-up of the transactions.

**For the two activities tested in our transaction sampling, we found DXR reporting and Financial Data Warehouse information to be both accurate and complete.** In addition to DXR reporting, AFS3 financial information is provided to departments through Financial Data Warehouses of transactions for each department. We examined the DXR expenditure report (GA0004A-01, FYTD Detail Expense Transaction by Unit) and Financial Data Warehouse information and compared them to the AFS3 accounting journal for the two activities tested in our transaction sample. We analyzed for completeness as well as dollar accuracy and found both to be complete and accurate representations of the corresponding data in AFS3.

**Activity-level financial data reliability varied for the two activities we tested, when comparing reported purchasing expenditures in AFS3 to source documents and systems.**

We tested activity expenditure transactions for two activities and found reported expenditures of one activity for the most part accurate but with control issues, and reported expenditures of the other inaccurate. Criteria we applied for reliability included accuracy, completeness, and validity, meaning transactions were authorized and appropriate for the activity being charged. Accuracy is expected in the recording, documenting, calculating, summarizing, and reporting. Although we did find a majority of the transactions in both tested activities reliable, we did find errors in both activities' transactions indicating data reliability control issues. Associated with these errors, we also found issues with the reliability of transactions posted as uploads from systems that interface with AFS3. We also found issues with AWU Procard documentation outside of our transaction sample during the course of our work.

**We found the transactions included in reported expenditures for the Law Department's Civil Litigation activity to be for the most part reliable, with qualifications, when comparing reported purchasing expenditures in AFS3 to source documents and systems.** We found 84% of transactions and 97.4% of dollars in our transaction sample to be reliable. However, we found 16% of transactions (11/68) and 2.6% of dollars (\$1,881/\$72,554) in our transaction sample to be unreliable. The reliability problems with these transactions included missing supporting documentation, data inaccuracy between supporting documentation and the system, vendor information recorded incorrectly, and transactions not processed within the required time. See Exhibit 2.

**EXHIBIT 2  
Law Department Transaction Sample Reliability Results  
For the Civil Litigation Activity**

<b>Summary:</b>	<b>Number of Trans.</b>	<b>Dollars</b>	<b>% Trans.</b>	<b>% of Dollars</b>
Transactions found Reliable	57	\$70,358.27	83.82%	97.40%
Transactions found Unreliable	11	\$1,881.31	16.18%	2.60%
<b>Details:</b>				
Not entered within required time	7	\$1,316.01	10.29%	1.81%
No Supporting Invoice	2	\$565.30	2.94%	0.78%
Invoice and System Data did not Match	1	\$254.87	1.47%	0.35%
Incorrect Vendor Information	1	\$60.00	1.47%	0.08%
<b>Total</b>	<b>68</b>	<b>\$72,239.58</b>		
Less \$ for Transactions with Non-\$ Errors		-\$314.87		

SOURCE: OCA Analysis of Law Department transaction sample from OCA testwork

City policy establishes a 30-day turnaround on payment of invoices. Some of the late payments in our sample of transactions reported in FY07 were from office supply invoices issued in FY05 and FY06. In some cases, invoices were paid late by as much as

274 - 728 days after invoice date. City staff acknowledges there is no report generated to keep track of payments that are in a 'pending' file. An available option in AFS3 is that a departmental user can query AFS3 for non-final transactions at any point in the process. It is important that departmental staff monitor their documents to ensure that they are processed timely. We identified other related late payments for Law department office supplies outside of our transaction sample which overall had the effect of skewing the department's office supply expenditures by fiscal year. Specifically, of \$40,497 in office supply expenditures recorded for the department for FY07, \$18,160 or almost 45% were recorded as past due payments. As a result, budgetary or audit decisions using the reported information could be negatively affected.

The issues identified through our testing of Law department transactions indicate the need for improved vendor payment procedural controls. Contributing factors included weak review controls, both at the department and at Central Accounts Payable (CAP), and lack of methods for tracking outstanding payments. Although three-way match *system* control appears to be strong, *procedural* controls to ensure that a payment has the correct supporting documentation and is sent to the correct address and vendor name can be strengthened.

In discussing the identified control issues with Central Accounts Payable (CAP) staff, we confirmed that they normally verify that vendor code, vendor name, address, invoice number, and invoice amount match between the purchasing document and the vendor invoice submitted by the department. They also check the dates, for quality control purposes on invoice payment turnaround time. CAP staff acknowledged that the review and verification controls at both the department and CAP levels had broken down in the cases of erroneous or unsupported transactions identified in our sample, noting that these instances are used in future trainings to underscore the importance of thorough review.

The control environment has changed since some of the erroneous transactions were initiated (in FY05) and processed (in FY07), both through improved departmental tracking, strengthened controls in AFS3 (through 3-way match), and recently re-emphasized guidelines issued by email to departments. Since the time of the transactions we examined, the Law department has implemented an invoice tracking system. In addition, the Law department indicates that responsibilities for payments and financial monitoring have been restructured to allow for more effective review and control.

In response to our findings, CAP staff indicated they recently added an additional control to prevent releasing checks with incorrect vendor name by requiring a Controller's Office staff member to re-verify the vendor name and address one final time before releasing the check. CAP has also provided guidance to City departments to make sure they are matching vendor names and addresses as they appear on the invoice and the remit to address; otherwise, CAP will return the documents to the department for correction. In addition, CAP has recommended an additional control through the creation of a daily report that searches for different payment documents with identical invoice numbers that have different invoice line number references, to identify potential duplicate payments and prevent them from being released.

## Recommendations

04. To ensure that Law Department vendor payments are on time, accurate, and have appropriate supporting documentation, the Director of the Law Department should ensure that payment review and tracking procedures are effective. In addition to the Invoice Tracking system recently implemented by the Law Department, such controls should include supervisory or review steps to detect and correct payment issues before payments become delinquent, as well as executive monitoring tools and procedures for knowing that payment processing is effective.

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**MANAGEMENT RESPONSE:** Concur. The department will implement this recommendation. The department is exploring several mechanisms that will ensure that vendor payments are on time, accurate, and have appropriate supporting documentation to implement this recommendation. These mechanisms include adoption of additional procedures to support the COA Corporate purchasing policy and procedure, use of a "Purchase Request Form" to begin the process of tracking anticipated invoices to be received, additional staff training, additional SSPR performance measures to ensure accountability, and improvements to the Invoice Tracking system and associated reports.

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05. To ensure the accuracy and reliability of payments and recorded payment information processed by City departments and Central Accounts Payable (CAP), the Controller should ensure the control improvements identified by CAP are fully implemented:

- a. Strengthening controls to prevent releasing checks with incorrect vendor name by requiring a Controller's Office staff member to re-verify the vendor name and address one final time before releasing the check;
- b. Providing guidance to City departments to make sure they are matching vendor names and addresses as they appear on the invoice and the remit-to address; otherwise, CAP will return the documents to the department for correction;
- c. Creating a daily report that searches for different payment documents with identical invoice numbers that have different invoice line number references, to identify potential duplicate payments and prevent them from being released; and
- d. Providing training for CAP and affected department staff that emphasizes learning from mistakes.

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**MANAGEMENT RESPONSE:** Concur. (a) Controller has assigned responsibility for final check review including verification of vendor name and address one final time before releasing vendor checks. (b) Controller's Office Accounts Payable Manager sent out communication to departmental accounts payable staff with guidance regarding the importance of matching vendor names and addresses as they appear on the invoice to the system names and addresses including notification that documents that do not match will be returned to departmental staff for resolution. (c) Controller's Office technical staff will modify the existing report which identifies potential duplicate payments to include a search for invoices that have different invoice line number references. (d) Controller's Office continues to develop training as needed that emphasizes learning from mistakes.

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**We found the transactions included in reported expenditures for the Austin Water Utility (AWU) Site Inspection water activity unreliable when comparing reported purchasing expenditures in AFS3 to source documents and systems.** We found 60% of the transactions and 75% of the dollars to be reliable. However, we found 40% of transactions (19/47) and 25% of dollars (\$4,026/\$15,333) unreliable. Issues included

erroneous or unsupported fleet transactions, incomplete warehouse transactions, and insufficient segregation of duties for warehouse transactions. Most of the erroneous transactions (16 out of 19) originated from Fleet billings and were not within AWU control. However, AWU financial and activity management were not able to detect the erroneous or missing transactions through monitoring. Causes cited by management included lack of reports of details on fleet billing, lack of access by the activity manager to system details beyond e-combs (a system which captures information from AFS3), and uneven billings per month, making it difficult to monitor against an expected monthly budgeted amount. In addition, responsibilities of the AWU Fleet Liaison role were not sufficiently clarified with respect to resolving Fleet billing questions or issues.

**Recommendation**

06. To ensure that activity expenditures are reasonable, appropriate, and authorized, the Director of the Austin Water Utility should ensure that procedures, tools, system access, and training as needed, are provided to support effective monitoring of activity expenditures. In particular, this should include clarifying roles and responsibilities of the AWU Fleet Liaison, AWU financial staff, and AWU activity managers in verifying fleet billings and resolving questions or issues.

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**ABBREVIATED MANAGEMENT RESPONSE:** Concur. Frankie Casarez, AWU Fleet Program Coordinator, has been designated as the person responsible for ensuring the accuracy and appropriateness of all fleet-related expenditures posted against the budget of AWU. Mr. Casarez' SSPR has been modified to document these responsibilities. These responsibilities are effective January 11, 2008.

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**We found erroneous Fleet interface transactions including inaccurate allocations of vehicle lease and fuel charges to department accounts.** During our audit we examined all fleet charges to the AWU Site Inspection Water Activity in the first half of FY07. We found 11 of 27 transactions tested to be reliable and 16 of 27 unreliable, resulting in incorrect fleet charges to this AWU activity of \$3,829.67. The effect of these charging errors is that the reported expenditures for the AWU Site Inspection activity are unreliable. See Exhibit 3. These results represent a small fraction of the total Fleet billings for the scope period (of approximately \$16.7 million), and we do not know whether they are or are not representative of the other transactions that we did not analyze.

**EXHIBIT 3  
Types and Frequency of Fleet Billing Errors**

Fleet Billing Issue	Trans- actions in sample	Un- reliable Trans- actions	%	\$
Fuel - incorrect calculation	2	2	100%	1,368.45
Fuel - wrong unit billed or unsupported billing	9	3	33%	669.76
Lease - wrong unit billed	16	11	69%	1791.46
Total	27	16	59%	3,829.67

SOURCE: OCA Analysis of Fleet Billing issues in transaction sample.

Reasons for these incorrect charges include:

- Charging one unit for vehicle charges that should have been billed to other units but that were rejected by AFS3 due to lack of a budget line for the other units, and due to inability to resolve charges with fleet user departments by each month-end;
- One unsupported transaction (basis for charging this unit not determined);
- Incorrect calculation of fuel card charges, combined with lack of review for errors.

We do not know the extent or effect of other incorrect charges to other accounting units not reviewed in our sample, resulting from the causes found. As a result of our preliminary findings, Fleet management and staff performed a comprehensive assessment of all FY07 fleet charges to determine the need for adjustments or notification to departments, in coordination with the Controller's office. The results of this assessment and corresponding corrective actions were not yet complete at the time of our reporting on this audit.

In regard to FY08, Fleet management indicate they have initiated a review of FY08 accounting units set up for FY08 fleet charges, to obtain departmental verification that charging arrangements are correct and that all needed budget lines have been established.

Procedural issues have affected Fleet's ability to ensure fleet billings to departments are accurate. These include the inability to resolve fleet billing issues with departments, resulting in charging to incorrect accounts when account errors occur; and unclear Fleet Liaison roles in different departments using fleet vehicles. Contributing causes include lack of established procedures and agreements with user departments for resolving fleet billing issues. Such procedures should include clear notification and response times, along with escalation procedures and contact names. Fleet management has indicated that progress is underway in addressing needed improvements to strengthen Fleet's service to departments. Fleet has developed a draft departmental service agreement and is updating its administrative bulletins to address some of these issues.

We also found differences in vehicle assignment between two different Fleet systems (M4 Fleet Lease and Fuel system, and Wright Express Fuel Card system), along with insufficient review of transactions to detect errors, and insufficient documentation and review of account correction transactions. In addition, we found the need for better reporting to allow departments to monitor and verify the correctness of fleet charges to their accounts.

Other issues include the lack of policies and procedures and review at either Fleet or at the Controller's Office regarding required documentation for transactions that are corrections to JVAI transactions output from M4. There was also no log of correction charges made with resolution and approval indicated for each. Management also indicated that staff organization, roles, and responsibilities are potentially not optimally established to support sufficient segregation of duties for review, clarifying operational data input and validation/review responsibilities as opposed to IT technical support responsibilities.

In examining fleet correction transactions, we also found a lack of system requirements for approval of transactions that are posted final without going through workflow, thus eliminating any requirement for review. Erroneous automated interface transactions that are rejected by AFS3 should require some kind of review and approval before being posted as final. We found that no approval process was required for the correction of fleet interface billings, and we found insufficient documentation of the justification for the corrections made. Based on Fleet's own review of recordkeeping issues from feedback in this audit, Fleet management indicated that rejected fleet interface transactions will now be held and processed separately by departmental journal voucher transactions, once the correct accounting is identified, and will be reviewed before being finalized.

**Recommendations:**

07. To ensure the accuracy and correctness of Fleet charges to Fleet user departments and individual activities that are charged through automatic uploads to AFS3, the Fleet Officer should:
- a. Establish a process for ensuring vehicle assignments to departmental accounts are consistent between M4 and Wright Express systems, and that updates are made to both systems as vehicle acquisitions, transfers, and retirements are made, with review and verification on the input step.
  - b. Establish responsibility for reviews to ensure that charges to departments are accurately calculated and that a reconciliation is performed between the billed charges and what is posted to AFS3; and establish monitoring procedures to ensure such reviews and reconciliations are performed.
  - c. Assess and revise financial staff organization and roles and responsibilities to provide for sufficient segregation of duties and review of transactions, clarifying operational/financial ownership responsibilities for data quality supported by technical data support roles and responsibilities.

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**MANAGEMENT RESPONSE:** Concur

- a. Fleet staff will establish procedures to ensure consistency among departmental accounts by developing data exception processes and to ensure a consistent process exists for adding and modifying departmental accounts. In addition, departments will be provided a list of vehicles and related accounts for review on a quarterly basis.
  - b. Financial staff will establish a review process to ensure charges are accurate, In addition, staff will perform a monthly reconciliation between AFS3 and billed charges
  - c. Fleet management will review organizational roles and responsibilities to provide for sufficient segregation of duties and ensure data quality procedures are in place. The Controller's Office has established two workflow approval levels to process changes to documents uploaded in AFS3
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08. To ensure Fleet billings are accurate and correct and that Fleet is able to resolve billing issues by month-end each month, the Fleet Officer should:
- a. Establish documented procedures and/or service agreements with departments for resolving fleet charging issues, with notification and response times clarified.
  - b. As part of these agreements, establish documented departmental Fleet Liaison roles and responsibilities to include assistance in resolving fleet charging issues

- with departments, and require departments to identify single points of contact (SPOCs) for resolving billing issues.
- c. Establish or revise documented policies and procedures to clarify documentary support required for transactions, including correcting journal vouchers.

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**MANAGEMENT RESPONSE:** Concur

- a. Fleet staff will establish procedures to ensure resolution of billing issues, including departmental response times
  - b. Fleet staff will develop service agreements with all customer departments detailing billing methods and response times for resolving charges. As a part of the service agreement, Fleet will require that departments identify a liaison or SPOC to resolve billing issues
  - c. Fleet financial staff will establish supporting documentation policies for AFS3 transactions
- 

09. To ensure departments are able to verify Fleet charge accuracy & appropriateness to departmental activities and accounts, the Fleet Officer should:
- a. Work with Fleet user departments to assess departmental needs for reporting to allow verification of fleet charges to departments, and develop such reporting and distribution of reports to address identified needs.
  - b. Notify departments when charges are made that are not supported by established charging arrangements and include this notification in documented procedures for resolving charging issues.

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**MANAGEMENT RESPONSE:** Concur

- a. Fleet staff will meet with customers to determine reporting needs and follow-up to ensure that the reports are meeting the needs of the customer.
  - b. Fleet financial staff will develop policies and procedures for use within Fleet to notify departments of any charges outside the established process and a process to resolve any charging issues in a timely manner
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10. To ensure Fleet's ability to effectively and efficiently manage the billing aspect of Fleet's services to fleet user departments, the City's CFO should coordinate with responsible Assistant City Managers to require that as a condition of use of fleet vehicles and services, departments must establish appropriate budget lines for fleet charges and work with Fleet staff to ensure billing issues are resolved throughout the year. The CFO should also establish monitoring tools (such as performance measures, exception reports, or escalation notification procedures) to ensure these objectives are achieved.

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**MANAGEMENT RESPONSE:** Concur. Fleet Services will compile a monthly exception report and forward to the CFO for follow-up with the department to ensure that appropriate budget lines are established timely after errors are identified. Continuing problems will be elevated to the appropriate assistant city manager.

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**We found incomplete uploads from the AWU warehouse inventory interface, resulting in incomplete transactions in AFS3. We also found insufficient segregation of duties for AWU inventory transactions.** As part of our sample testing, we examined transactions associated with the inventory issued from the AWU warehouses. These warehouses supply parts for various uses to multiple users within the utility as well as other City departments. This inventory activity is managed by an

inventory management system called ASAP, which has an automated interface for uploading transactions into AFS3.

During our testing, we discovered that uploaded transactions from ASAP to AFS3 were incomplete. We examined four inventory transactions, of which one did not fully upload into AFS3 – five inventory items of the transaction were supplied and recorded in ASAP, but only three were recorded in AFS3.

While the full extent of the incomplete ASAP uploads to AFS3 has not been determined, the prevalence noted by Warehouse staff would indicate that it goes beyond those in our sample. However, any incomplete information affects the reliability of financial information for all units that use items from the Warehouse, as well as for the Warehouse itself.

AWU warehouse management and technical staff are aware of the issue, caused by software problems, and are working on its resolution. In addition, management articulated a number of other issues which, taken together, contribute to weakness in the controls over inventory transactions.

- **Technical Issues.** As for causes of these interface issues, according to the AWU technical owner of the ASAP database, delays in the City's planned conversion to Maximo for inventory management software, combined with changes in the ASAP vendor support, resulted in AWU having to modify ASAP in a short timeframe. This was due to the late decision not to integrate Maximo with AFS3 at the scheduled AFS3 go-live of October 2006, thus requiring AWU to modify the ASAP program as a temporary solution, in anticipation of a Maximo go-live in 2007. According to the AWU technical staff, an upgrade of this nature would normally take six months but was done in six weeks.

As a result, some shortcuts were taken affecting the functionality of the interface. For example, there used to be a daily download from AFS3 to ASAP of stock information (stock numbers, pricing, and on-hand quantity). This download is now done manually. AFS3 requires stock items to appear in multiple warehouses, although ASAP does not currently support this. AWU technical staff is working on restoring the synchronization procedure to replace the current manual data entry of new stock items into the ASAP database. Other functionality was reportedly lost with the temporary modification of ASAP. For example, returns of inventory items to the warehouse can no longer be processed by bar code scan, so the return process is now more manually intensive than it used to be.

Technical staff are working on resolving these issues, indicating they have the needed support from the Controller's office. However, the ultimate resolution of these inventory interface issues will be affected by the City's decisions on whether to pursue Maximo integration City-wide. Warehouse management indicate that they may switch to a "desktop requisitioning" system in the future, which would resolve current issues with stock balances.

- **Procedural controls.** In the meantime, controls should be in place to detect and correct missing information after each upload occurs. Controls have been in place for some time to detect *missing* transactions that did not upload, by verifying each transaction uploaded to AFS3, but as a result of our audit findings, warehouse staff have modified these controls to detect *incomplete* uploads as well by checking the total amount of each transaction.
- **Staffing impacts.** Because of the need to put the interface into production in conjunction with AFS3 go-live, before all of the interface software issues were identified and resolved through testing, system problems have created additional work for warehouse staff. Warehouse staff indicate they are trying to go back to identify missed uploads, but also have to monitor current uploads, and there really hasn't been time to catch up.
- **Suspense Items.** Another issue affecting the successful processing of inventory interface transactions relates to transactions rejected by AFS3 once uploaded. AWU Warehouse management indicates that suspense file reports have changed from AFS2 to AFS3 and are no longer sorted by agency, making them more difficult to use. Although we did not verify this, warehouse management indicates that this resulted in some incomplete uploads being missed. Management indicated that wall-to-wall inventory processes identified some missed uploads, but management expressed concerns that not all missed uploads were identified. Some are still being discovered; one recently came to attention when an item was returned that was not recorded as ever being issued.
- **Training Issues.** Warehouse management also indicate that there was inadequate training provided on AFS3 inventory processes; training concerned standard purchasing processes, but inventory purchasing is different. The Controller's Office indicated that specialized training on interfaces had been provided. However, this feedback indicates that further attention may be needed to interface training in this unit.
- **Segregation of Duties.** Authorization and receipt of assets should be performed by different people. In AFS3, the same person cannot both create a purchase order and approve it. This standard for segregation of duties should apply for transactions conducted outside of AFS3 as well. We found one inventory transaction for which the same individual requested the item, approved the request, and signed for it upon receipt. The Warehouse manager indicated that this is a common practice for the warehouse and that AWU supervisors are allowed to approve their own inventory requests. In addition, management indicated that although authorized signature lists are used for AWU inventory requesters, no signature lists exist for AWU inventory users in other City departments. The lack of segregation between requestor and approver, along with the lack of authorized signature lists for all departments using AWU inventory, represent control weaknesses that could result in improper inventory transactions. In discussing these issues with AWU finance and warehouse

management, as well as the AWU manager of asset management and business processes, they identified reconciliation procedures in place that could potentially serve as compensating controls for the lack of segregation of some duties. However, we did not perform sufficient review on the reconciliations performed through the entire process, from warehouse to use in jobs, to verify that the compensating control was sufficient to prevent misappropriation of inventory.

### **Recommendations**

11. To ensure AWU Warehouse interface to AFS3 is functioning effectively, the Director of AWU should continue working with the Controller's Office to
  - a. resolve identified issues, including synchronization, stock balances, pricing, and warehouse-specific information;
  - b. ensure software changes are fully tested before being put into production; and
  - c. coordinate on the timing and strategy for possible Maximo integration or conversion to other software to meet identified functional needs.

---

**MANAGEMENT RESPONSE:** Concur.

11a. An updated version of ASAP (the Utility's inventory bar code reading system) was tested and installed by Greg Hall, Programmer Analyst Sr., in the Austin Water Utility on December 12, 2007. Data synchronization between ASAP and AFS3 will go into production the week of January 14, 2008. All stock item info on AFS3 for the two warehouses will be copied down to the ASAP system at the last step in the end-of-day process (AFS3/Hansen file creation). Individual item pricing for each warehouse as maintained on AFS3 will be reflected on ASAP.

11b. Brownlee Bowmer, Chief Information Officer, in the Austin Water Utility will ensure proper programming standards and testing followed.

11c. AWU will continue to work with the Controller's Office to coordinate any possible integration solutions.

---

12. To ensure that incomplete uploads (past and future) and suspense transactions are identified and resolved in a timely manner, the Director of AWU should establish a systematic approach and apply sufficient staffing to monitor current upload activity while reviewing and resolving any issues with past uploads from FY07 since the ASAP database was modified.

---

**MANAGEMENT RESPONSE:** Concur. Tammie Dahlberg, Accountant Associate, in the Austin Water Utility receives a daily report from the Controller's Office identifying how many transactions were uploaded successfully, failed or did not upload. This report is used to make corrections daily. Tammie Dahlberg, Accountant Associate, in the Austin Water Utility will use InfoAdvantage to run a report of transactions for all of fiscal year 2007. Any skipped transactions will be researched and entered into AFS3 if needed. It is anticipated that this will be completed by March 31, 2008.

---

13. To ensure all warehouse transactions are appropriate and authorized, the Director of AWU should ensure sound inventory management practices are in place, including segregation of duties in requesting and approving inventory issues and/or compensating controls such as reconciliations; use of authorized signature lists for all departments using inventory from the warehouse; and monitoring to ensure these controls are effective.

---

**MANAGEMENT RESPONSE:** Concur. Greg Torres, Materials Control Supervisor, in the Austin Water Utility is currently collecting authorized signatures for AWU divisions. Authorized signatures for other departments will also be collected. It is anticipated that this will be completed by March 31, 2008.

---

**A number of other interfaces provide uploads to AFS3 which we did not audit.** Issues identified with Fleet and AWU Warehouse interface transactions raise questions about the controls to ensure reliability of the other interface transactions. Over the course of this audit, we became aware of problems and potential problems with the inbound interfaces providing information to AFS3. Further examination of these interfaces and their respective controls was beyond the planned scope of this initial audit. However, these interfaces can impact the accuracy and reliability of the data in AFS3, and thus a greater understanding of them is necessary to provide assurance about AFS3 information.

There are 20 inbound interface systems into AFS3. Inbound interfaces are the jobs that process files received from external systems and either create a new document in AFS3, modify an existing document in AFS3, or load information into AFS3 for reconciliation. Inbound interfaces can also be processes that update AFS3 tables directly. These interfaces run at different frequencies, ranging from Daily to Annually. Of the 20 inbound interfaces, eight are the responsibility of the Controller's Office. See Exhibit 4 for a list of AFS3 In-bound Interface System Transactions.

**EXHIBIT 4  
AFS3 In-bound Interfaces and Transaction Types**

	<b>INTERFACE</b>	<b>Department</b>	<b>Trans Code</b>
1	BANK FILE 23 (recon file)	FINANCIAL SERVICES - CONTROLLER	BANK
2	BANK FILE 33 (recon file)	FINANCIAL SERVICES - CONTROLLER	BANK
3	BANNER	FINANCIAL SERVICES - CONTROLLER	JVP
4	BANNER PAYMENT DETAIL	FINANCIAL SERVICES - CONTROLLER	na
5	FIXED ASSETS	FINANCIAL SERVICES - CONTROLLER	FA
6	INDIRECT COST	FINANCIAL SERVICES - CONTROLLER	JVIC
7	INTEREST ALLOCATIONS/ TRANSFERS - DISTRIBUTION OF CHARGES	FINANCIAL SERVICES - CONTROLLER	JVAI
8	CITY WIDE TRANSFERS	FINANCIAL SERVICES - CONTROLLER	JVAI
9	PURCHASING-PROCARD	PURCHASING	JVAI
10	FLEET BILLINGS	FLEET	JVAI
11	FLEET COST ALLOCATIONS	FLEET	JVAI
12	WATER REBATES	WATER UTILITY	GAXI
13	WATER-INVENTORY	WATER UTILITY	OC
14	AE - PROCARD	AUSTIN ENERGY	JVAI
15	AE-CIS - AR	AUSTIN ENERGY	JVAI
16	AE-CIS - REFUNDS	AUSTIN ENERGY	GAXI
17	AE-CIS-CASH RECEIPTS	AUSTIN ENERGY	JVAI
18	AE-IMS	AUSTIN ENERGY	JVAI
19	AE-REBATES	AUSTIN ENERGY	GAXI
20	WIRELESS	CTM	JVAI

SOURCE: OCA Summary of AFS3 Interface List from the City Controller's Office.

Note: Shaded Yellow = Interfaces with limited review by OCA, with reliability issues identified.

According to the Controller's Office, those interfaces for which the Controller's Office is responsible are tested to ensure the accuracy and completeness of uploaded information. However, the extent of testing of interfaces other than those owned by the Controller's Office was not known by the Controller's Office. Based on the absence of complete testing information on these interfaces into AFS3, assurance of reliability for these interfaces is incomplete.

One of the Controller's Office Interfaces, the payroll system, Banner, processes 88% of all transactions recorded by AFS3. According to the Acting Controller, a full system audit has not been performed on Banner, although the federal single audit has included some validation of payroll charges (from timesheet to grant charge) for grant activities.

We have not analyzed the percent of purchasing and procurement transactions involved in the remaining 12 interfaces, or what controls exist for the interfaces not related to transactions selected for this audit. However, in our audit of transactions within AFS3, we encountered problems concerning the completeness of uploads from inbound interfaces. Specifically, we found incomplete uploads from the Water Utility Inventory interface which were confirmed by inventory staff, and we have been informed by City Corporate Internal Audit staff of problems with past uploads from the Fleet fuel tracking system into the Fleet billing system M4. Although we did not test for or identify any problems in the interface between M4 and AFS3, incomplete uploads from the fuel tracking system to M4 could still cause incompleteness in AFS3.

AFS3 is still a new enough system that interface problems may not yet be fully identified, and, even if identified, may not yet be fully addressed. In the case of both the inventory interface and the Fleet billings interface, controls are still evolving, in part as a response to audit findings (both those of this office and those of the Corporate Internal Auditor). Based on our work, we do not know how representative the identified interface problems are.

More information is needed about what controls other interface owners have implemented, what testing has been performed on the interfaces, what standards and requirements the Controller's Office has established for interface owners for assurance of data reliability for in-bound transactions, the extent of Controller's office monitoring, what problems are already known, and the accuracy of AFS3 for transactions processed by other interfaces. These areas might benefit from random sampling and further examination of interface transactions as whole.

### **Recommendation**

14. To ensure the reliability of transactions from in-bound interfaces to AFS3, the Controller should establish standard requirements for interfaces, to be provided within a reasonable time by interface owners, including documented procedures for monthly reconciliation of the intended billing from the interface to the actual postings in AFS3, and providing the results of these reconciliations to the Controller's Office each month for identification of any needed corrections the following month.

---

**MANAGEMENT RESPONSE:** Concur. Controller's Office will develop a standards document for the creation of new interfaces to AFS3 that will include processes, procedures and testing standards to be met before the new interface will be allowed in the AFS3 production application. In addition, Controller's Office will work with each interfacing responsible party to develop a monthly reconciliation and correction process for all interfacing documents. Reconciliation processes are already in place for interfaces from the City's major applications such as payroll and the utility billing system.

---

**During our transaction testing, issues with AWU Procard transaction documentation and review procedures came to our attention.** Procard is the City's Purchasing Card program administered through the Purchasing Office, designed to expedite transactions of \$500 or less. While examining AWU site inspection expenditures which included some Procard transactions, we noted missing documentation for a number of Procard transactions outside of our sample. In our separate examination of 197 Procard transactions, we found that 54% (107/197) of the transactions and 58% (\$12,991/\$22,284) of the charges were not verifiable due to missing support documentation.

The AWU financial staff responsible for Procard payment processing indicated that card users do not always submit receipts for transactions, although the Purchasing Card policy manual requires cardholders to submit itemized receipts. Inconsistent enforcement of requirements for supporting documentation could lead to transactions that are not appropriately charged to the right accounts. In addition, potential fraud, waste, and abuse could go undetected, although we have no indication that such incidents have occurred. Further, management decisions made on the basis of AFS3 data may be skewed if transactions are inappropriate or incorrectly charged.

Causes identified by AWU financial management included workload and staffing issues. Management indicates that since the time of the transactions we examined, management has reorganized responsibilities, added additional staffing for monitoring, and implemented a monitoring process to ensure missing invoices are obtained and reviewed. In discussing the missing documentation with AWU senior management and AWU internal audit, internal audit indicated that in two prior audits that reviewed limited samples of AWU Procard transactions, the documentation was in order. Senior management suggested the transactions examined by OCA may have been an isolated situation where focused training may be required.

### **Recommendation**

15. To ensure the reliability of Procard transactions, the Director of AWU should ensure that all Procard documentation meets established requirements for the Procard program and that supervisory monitoring is sufficient to detect and correct unsupported transactions.

---

**ABBREVIATED MANAGEMENT RESPONSE:** Concur. Pam Hurt, Financial Manager, in the Austin Water Utility, has implemented a new notification process for the contract card users. Pam Hurt is developing a system to identify missing contract card receipts, document follow-up activity and identify training opportunities. This is nearly complete, with implementation expected by January 18, 2008. That system will be enhanced and

implemented for individual cardholders' records by February 29, 2008. By the same date, AWU will begin consideration of implementing penalties for noncompliance with Procard program requirements along the lines of those suggested in the October 1, 2007, Procard Administrative Bulletin.

---

**During the course of our work, we found several issues that warrant further consideration.** After the external auditors finish their work on the FY07 financial statement audit, we may propose another AFS3 audit for our FY09 service plan. Issues we may consider include departmental input controls, interfaces, reporting,, resolution of implementation issues at go-live, and invoice tracking.

- **Departmental input controls, which complement automated and centralized controls, warrant further review.** From our limited transaction sampling, an emerging concern that arose from our work was the need for improvement in departmental input controls over transactions. Sufficient types and levels of control should be in place in each department to ensure financial data reliability. Our testing results represent a very small fraction of City activities (two of approximately 650 activities Citywide), and the reliability of activity-level financial information for the remaining activities is unknown. Although other auditors in the City perform audits that may provide assurance on some of the remaining activities, further assessment may be warranted through a cycle of review or risk-based audits or control self-assessments by departments. Control Self-Assessment (CSA) and Enterprise Risk Management (ERM), along with other resources, provide frameworks for systematically assessing controls organization-wide. One example of such a framework is the concept of Levels of Control which may be assessed as part of CSA.

Controls may be described in Levels, from Level 1 to 4. Controls may also be defined as preventive, detective, or corrective.

- Level 1 controls are the hands-on procedures and controls that should occur with every transaction or event that takes place.
- Level 2 controls are supervisory/review/verification in nature, to ensure that basic level 1 controls are being followed and are effective.
- Level 3 controls are oversight controls to ensure level 1 and 2 controls are working. Examples may include performance measures, exception reports, executive dashboards, and escalation protocols for issue resolution.
- Level 4 controls are independent audit or review.

A mix of controls should be in place, and departments should be encouraged to use these frameworks for assessing departmental controls over financial data reliability.

- **Report development.** During our work, we received feedback that continued work is needed in the area of AFS3 report development, to support effective control procedures both for AFS3 and for related interfaces. Specific types of report development needs identified include improved suspense reporting, interface

reporting, and payment tracking tools. We noted issues with uploads of AFS3 data to other systems, such as e-CAPRIS, the City's project management tracking system. We did not do testwork in this area, and management was aware of and working on the issues, but further evaluation could be beneficial.

- **System testing and data conversion issues that remain unresolved, if any.** OCA did not review final conversion plans or conversion testing results, since the plan was for management to have an independent review. Management has indicated that the decision was made to forego a separate independent review, since the external auditor would need to review conversion as part of their work on the financial audit. This, along with any acceptance testing issues that were unresolved at go-live, remains as an area for further evaluation.
- **Departmental vs. Centralized tools for Departmental Invoice Tracking.** We found that Law department finance personnel developed their own database for invoice tracking. Other departments also indicated the need for reports or tools for easier payment tracking within AFS3. The issue for further evaluation is whether AFS3 could be modified to be useful for such departmental routing and tracking, to avoid unnecessary duplicate data entry.

We encourage management to continue further assessment of these as well as any other issues potentially affecting AFS3 data reliability.

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**APPENDIX A**

**MANAGEMENT RESPONSE**

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## MEMORANDUM

**TO:** Steve Morgan, City Auditor

**FROM:** Jeff Knodel, Deputy Chief Financial Officer 

**DATE:** February 11, 2008

**SUBJECT:** AFS3 Data Reliability Audit

We appreciated the work done by your staff to review the implementation of the City's financial accounting system, known as AFS3. The findings your staff has made are helpful to fully assess some of the numerous processes and data sources that are a part of AFS3.

Financial accounting system implementations in large, complex organizations are extremely difficult and risky projects. In order to mitigate risk, the City utilized a number of best practice strategies in order to ensure that the implementation would be a success. One of the most important strategies was establishing a relationship with the developer of the application, CGI-AMS. It was imperative over the life of the implementation process that they were held accountable for resolving issues that arose during the implementation period. In addition, it was critical that the City was also able to complete all required tasks in a timely manner.

This project utilized professional IT project management processes managed by the Communications and Technology Management Office. This effort ensured that all critical project timelines were met by both the City and CGI-AMS. Other challenges that were successfully managed include training over 1,000 users in 6 weeks, executing approximately 7,500 test steps, and converting over 25,000 vendors. The City had been on its previous system for the past 15 years, in which a very deep level of technical and system expertise had been achieved. The implementation of AFS3 has resulted in new technical and operating environments for technical staff and users. These types of changes are very significant and present difficult challenges in any type of IT project.

The success of the project could not have been achieved without all the hardwork and devotion of all project team members. The implementation of the recommendations in your report will reinforce and enhance our ongoing quality assurance efforts related to AFS3. We have already implemented most of the recommendations noted in the report and expect to make quick progress on those that are planned.

**CC:** Leslie Browder, Chief Financial Officer  
Peter Collins, Chief Information Officer  
Diana Thomas, Acting Controller  
Byron Johnson, Purchasing Officer

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RECEIVED  
FEB 05 2008

CITY OF AUSTIN  
OFFICE OF THE CITY AUDITOR

## MEMORANDUM

**TO:** Steve Morgan, City Auditor

**FROM:** Diana Thomas, Acting Controller

**DATE:** January 14, 2008

**SUBJECT:** Controller's Office Response and Action Plan for AFS3 Data Reliability Audit

Please find attached the Controller's Office responses and action plans for the AFS3 Data Reliability Audit. Below is approval from Leslie Browder, Chief Financial Officer. Please contact me at 974-1166 if you need any further information.

*Diana Thomas*

Diana Thomas  
Acting Controller

**Approval:**

Leslie Browder, Chief Financial Officer

**CC:** Jeff Knodel, Deputy CFO  
Vickie Schubert, Deputy CFO  
Larry Morris, IT Manager  
Lea Sandoz, Deputy Controller  
C'Anne Daughtery, Assistant City Auditor  
Joan Ewell, Auditor in Charge

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## **AFS3 Data Reliability Audit Recommendations and Controller's Responses**

### **Recommendations:**

01. To ensure that activities of AFS3 privileged and super users are appropriate and authorized, the Controller should establish procedures, mechanisms, and responsibility for monitoring the system activity of users with override or super-user authority and alterations to system data other than through the application. In addition, the Controller should work with technical staff and the vendor to identify and evaluate pros and cons of implementing strengthened automated system controls to support such monitoring.

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**MANAGEMENT RESPONSE:** Concur. Controller will establish procedures, mechanisms and responsibility for monitoring super-user activity and work with our vendor to evaluate strengthened automated system controls.

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02. To support efficient and effective review of error resolution from systems assurance jobs, the Controller should work with the vendor to create a summary report or centralized log of errors to record information on disposition and review of errors, and establish a periodic review of the log to be used for analysis.

---

**MANAGEMENT RESPONSE:** Concur. Controller will develop a tracking centralized error log for system assurance jobs.

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03. To ensure effective and efficient vendor payment processing using 3-Way Match, the Controller should continue to work with departments in resolving issues with 3-way match and vendor payment timeliness.

---

**MANAGEMENT RESPONSE:** Concur. Controller's Office has been and will continue to work with departmental staff regarding 3-way match and vendor payment timeliness.

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05. To ensure the accuracy and reliability of payments and recorded payment information processed by City departments and Central Accounts Payable (CAP), the Controller should ensure the control improvements identified by CAP are fully implemented:

- a. Strengthening controls to prevent releasing checks with incorrect vendor name by requiring a Controller's Office staff member to re-verify the vendor name and address one final time before releasing the check;
- b. Providing guidance to City departments to make sure they are matching vendor names and addresses as they appear on the invoice and the remit-to address; otherwise, CAP will return the documents to the department for correction;
- c. Creating a daily report that searches for different payment documents with identical invoice numbers that have different invoice line number references, to identify potential duplicate payments and prevent them from being released; and
- d. Providing training as needed for CAP and affected department staff that emphasizes learning from mistakes.

---

**MANAGEMENT RESPONSE:** Concur. (a) Controller has assigned responsibility for final check review including verification of vendor name and address one final time before releasing vendor checks. (b) Controller's Office Accounts Payable Manager sent out communication to departmental accounts payable staff with guidance regarding the importance of matching vendor

names and addresses as they appear on the invoice to the system names and addresses including notification that documents that do not match will be returned to departmental staff for resolution. (c) Controller's Office technical staff modified the existing report which identifies potential duplicate payments to include a search for invoices that have different invoice line number references. (d) Controller's Office continues to develop training as needed that emphasizes learning from mistakes.

---

14. To ensure the reliability of transactions from in-bound interfaces to AFS3, the Controller should establish standard requirements for interfaces, to be provided within a reasonable time by interface owners, including documented procedures for monthly reconciliation of the intended billing from the interface to the actual postings in AFS3, and providing the results of these reconciliations to the Controller's Office each month for identification of any needed corrections the following month.

---

**MANAGEMENT RESPONSE:** Concur. Controller's Office will develop a standards document for the creation of new interfaces to AFS3 that will include processes, procedures and testing standards to be met before the new interface will be allowed in the AFS3 production application. In addition, Controller's Office will work with each interfacing responsible party to develop a monthly reconciliation and correction process for all interfacing documents.

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**ACTION PLAN  
AFS3 DATA RELIABILITY AUDIT**

<b>Rec. #</b>	<b>Recommendation Text</b>	<b>Proposed Strategies for Implementation</b>	<b>Status of Strategies</b>	<b>Responsible Person/Phone Number</b>	<b>Proposed Implementation Date</b>
01	To ensure that activities of AFS3 privileged and super users are appropriate and authorized, the Controller should establish procedures, mechanisms, and responsibility for monitoring the system activity of users with override or super-user authority and alterations to system data other than through the application. In addition, the Controller should work with technical staff and the vendor to identify and evaluate pros and cons of implementing strengthened automated system controls to support such monitoring.	Controller's Office will develop and implement the following: <ul style="list-style-type: none"> <li>• Process and procedures for monitoring override and super user activities within the application</li> <li>• Processes and procedures for monitoring alterations to the system other than through the application.</li> <li>• Work with the vendor to identify and evaluate the ability to strengthen automated system controls to support such monitoring; however, without paying for such a modification to the system, the Controller's Office cannot control what modifications are made or when they would be available in a production release.</li> </ul>	Planned	Diana Thomas/974-1166	09/01/2008 for an internal solution. If additional software is required that would need to be budgeted and planned for, the proposed implementation will be dependent upon budget authorization and approvals.

		<ul style="list-style-type: none"> <li>Evaluate the possibility of implementing another software solution to assist with monitoring super user updates made outside of the application.</li> </ul>			
02	To support efficient and effective review of error resolution from systems assurance jobs, the Controller should work with the vendor to create a summary report or centralized log of errors to record information on disposition and review of errors, and establish a periodic review of the log to be used for analysis.	The Controller's Office will develop a log updated daily by staff based on the results of the system assurance jobs which track the following key information: (1) system assurance job in error, (2) date of error, (3) details of error, (4) disposition of error, and (5) disposition date of error. We will recommend an update to the application to our vendor; however, without paying for the change, we do not control what updates are accepted and implemented by the vendor.	Planned	Diana Thomas/974-1166	04/01/2008
03	To ensure effective and efficient vendor payment processing using 3-Way Match, the Controller should continue to work with departments in resolving issues with 3-way match and vendor payment timeliness.	Controller's Office will continue to work with departments to resolve issues with 3-way match and vendor payment timeliness. Actions already taken and ongoing to accomplish this include: <ul style="list-style-type: none"> <li>Work with vendors who submit high volume, low dollar invoices with the possibility of alternative</li> </ul>	Underway	Diana Thomas/974-1166	10/01/2008

		<p>billing, such as periodic billings vs. individual billings, and payment processes, such as establishing purchasing card contracts so that payment is made via City procurement card vs. check.</p> <ul style="list-style-type: none"> <li>• Developed and implemented new procedures for handling documents with errors so that return documents receive special processing (11/15/2007)</li> <li>• Correspondence sent to departmental AP staff addressing proper invoice line assignments to avoid duplicate payments. (10/05/2007)</li> <li>• Developed and made available the AP Manual for AIMS which is available on the Controller's Office website. This document will be updated as changes are needed. (May 2007)</li> </ul>			
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		<ul style="list-style-type: none"> <li>• Required PDF print of RC document from departments to ensure CAP correctly enters the purchase order and award line. (11/14/2007)</li> <li>• Established weekly staff meetings to discuss CAP topics including common CAP error handling and to reinforce consistency.</li> <li>• Held a Purchasing and Payments Users Group meeting to discuss the proper way to process documents and address user concerns (12/11/2007)</li> </ul>			
05.a	To ensure the accuracy and reliability of payments and recorded payment information processed by City departments and Central Accounts Payable (CAP), the Controller should ensure the control improvements identified by CAP are fully implemented: (a) Strengthening controls to prevent releasing checks with incorrect vendor name by requiring a Controller's Office	The staff member responsible for verifying check data prior to release of the checks added validation of the vendor name and address to their review on 08/20/2007 after this finding was initially brought to the Controller's Office attention by OCA.	Implemented	Diana Thomas/974-1166	08/20/2007

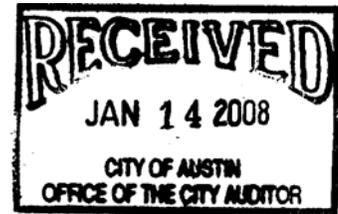
	staff member to re-verify the vendor name and address one final time before releasing the check;				
05.b	To ensure the accuracy and reliability of payments and recorded payment information processed by City departments and Central Accounts Payable (CAP), the Controller should ensure the control improvements identified by CAP are fully implemented: (b) Providing guidance to City departments to make sure they are matching vendor names and addresses as they appear on the invoice and the remit-to address; otherwise, CAP will return the documents to the department for correction;	After this finding was identified, the Accounts Payable Manager sent out an email to departmental accounts payable contacts on 09/05/2007 with specific instructions for departmental staff regarding verification of payment information prior to sending invoices to CAP including the consequences of delivering incomplete or inaccurate data to CAP (documents will be returned to departments for correction).	Implemented	Diana Thomas/974-1166	09/05/2007
05.c	To ensure the accuracy and reliability of payments and recorded payment information processed by City departments and Central Accounts Payable (CAP), the Controller should ensure the control improvements identified by CAP are fully implemented: (c) Creating a daily report that searches for different payment documents	Controller's Office technical staff will modify the existing program that searches for duplicate invoice payments to include a review for identical invoice numbers that have different invoice line number references.	Underway	Diana Thomas/974-1166	02/01/2008

	with identical invoice numbers that have different invoice line number references, to identify potential duplicate payments and prevent them from being released; and				
05.d	To ensure the accuracy and reliability of payments and recorded payment information processed by City departments and Central Accounts Payable (CAP), the Controller should ensure the control improvements identified by CAP are fully implemented: (d) Providing training as needed for CAP and affected department staff that emphasizes learning from mistakes.	In conjunction with the results of this audit, CAP developed a new AP2 class which will be delivered to accounts payable users beginning in February 2008. Beyond this specialized course, Controller's Office will continue to assess training needs and develop training materials and courses accordingly.  In addition, CAP developed an error tracking system to track payment document errors requiring correction by departments. Citywide use began on 11/15/2007. The purpose of this system is to identify common mistakes by departments and use this information to develop citywide and departmental specific training to address these errors.	Underway	Diana Thomas/974-1166	11/01/2008 (This will provide us with one year's worth of data from the error tracking system and allow us to assess the results on error handling.)
14	To ensure the reliability of transactions from in-bound interfaces to AFS3, the	For new interface development, Controller's Office will develop a document identifying the standard	Planned	Diana Thomas/974-1166	09/01/2008

	<p>Controller should establish standard requirements for interfaces, to be provided within a reasonable time by interface owners, including documented procedures for monthly reconciliation of the intended billing from the interface to the actual postings in AFS3, and providing the results of these reconciliations to the Controller's Office each month for identification of any needed corrections the following month.</p>	<p>processes, procedures and testing that must be utilized prior to acceptance of a new interface into the AFS3 production application. For existing interfaces, Controller's Office will work with each interfacing responsible party to develop and implement monthly reconciliation procedures given that each interface is unique.</p>			
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Status of strategies: planned, underway, or implemented.

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## MEMORANDUM

**TO:** Stephen L. Morgan, City Auditor

**FROM:** David Allan Smith, City Attorney  
Law Department

**DATE:** January 14, 2008

**SUBJECT:** Audit of AFS3 Data Reliability – Law Department Response

I have attached the Law Department's response to the Audit of AFS3 Data Reliability for your review. Electronic copies of this submission have also been submitted to your office. If you have any questions or want to discuss this draft, please let me know.



David Allan Smith  
City Attorney

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## **AFS3 Data Reliability Audit Recommendations – to Law Department**

### **Recommendations:**

04. To ensure that Law Department vendor payments are on time, accurate, and have appropriate supporting documentation, the Director of the Law Department should ensure that payment review and tracking procedures are effective. In addition to the Invoice Tracking system recently implemented by the Law Department, such controls should include supervisory or review steps to detect and correct payment issues before payments become delinquent, as well as executive monitoring tools and procedures for knowing that payment processing is effective.

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**MANAGEMENT RESPONSE:** Concur. The department will implement this recommendation. The department is exploring several mechanisms that will ensure that vendor payments are on time, accurate, and have appropriate supporting documentation to implement this recommendation. These mechanisms include adoption of additional procedures to support the COA Corporate purchasing policy and procedure, use of a “Purchase Request Form” to begin the process of tracking anticipated invoices to be received, additional staff training, additional SSPR performance measures to ensure accountability, and improvements to the Invoice Tracking system and associated reports.

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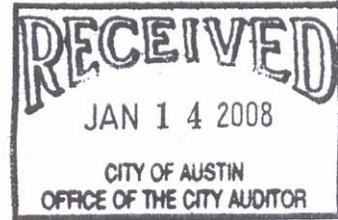
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**ACTION PLAN  
AFS3 DATA RELIABILITY AUDIT**

<b>Rec. #</b>	<b>Recommendation Text</b>	<b>Proposed Strategies for Implementation</b>	<b>Status of Strategies</b>	<b>Responsible Person/Phone Number</b>	<b>Proposed Implementation Date</b>
4	To ensure that Law Department vendor payments are on time, accurate, and have appropriate supporting documentation, the Director of the Law Department should ensure that payment review and tracking procedures are effective. In addition to the Invoice Tracking system recently implemented by the Law Department, such controls should include supervisory or review steps to detect and correct payment issues before payments become delinquent, as well as executive monitoring tools and procedures for knowing that payment processing is effective.	The department is exploring several mechanisms that will ensure that vendor payments are on time, accurate, and have appropriate supporting documentation to implement this recommendation. These mechanisms include adoption of additional procedures to support the COA Corporate purchasing policy and procedure, use of a "Purchase Request Form" to begin the process of tracking anticipated invoices to be received, additional staff training, additional SSPR performance measures to ensure accountability, and improvements to the Invoice Tracking system and associated reports.	Underway	Karen Kennard – 974-2177	July 31, 2008

Status of strategies: planned, underway, or implemented.

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## MEMORANDUM

To: Stephen L. Morgan, CIA, CGAP, CFE, CGFM  
City Auditor

From: Rudy Garza  
Assistant City Manager

Date: January 14, 2008

Subject: Response to Audit Recommendations

I have reviewed the Draft Audit Report for the Audit of AFS3 Data Reliability. Attached is my response to the audit recommendation.

Please feel free to contact me if you have any questions or concerns. Thank you for your assistance.

Rudy Garza  
Assistant City Manager

cc: Greg Meszaros, Director, AWU  
Perwez Moheet, CPA, Deputy Director, AWU

## Response to Audit Recommendations Audit of AFS3 Data Reliability

### Recommendations:

06. To ensure that activity expenditures are reasonable, appropriate, and authorized, the Director of the Austin Water Utility should ensure that procedures, tools, system access, and training as needed, are provided to support effective monitoring of activity expenditures. In particular, this should include clarifying roles and responsibilities of the AWU Fleet Liaison, AWU financial staff, and AWU activity managers in verifying fleet billings and resolving questions or issues.

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### MANAGEMENT RESPONSE:

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Concur.

Frankie Casarez, AWU Fleet Program Coordinator, has been designated as the person responsible for ensuring the accuracy and appropriateness of all fleet-related expenditures posted against the budget of AWU. Mr. Casarez' SSPR has been modified to document these responsibilities. These responsibilities are effective January 11, 2008. Specifically, the Fleet Program Coordinator is responsible for:

- a. Maintaining a list of all AWU vehicles and equipment and the respective accounting distribution of the program area responsible for each item.
- b. Performing an annual reconciliation between the list described above and the database Central Fleet uses to process fleet billings.
- c. Performing a monthly review of all fleet related expenditure transactions posted against AWU's budget to ensure their accuracy and appropriateness.
- d. Notifying AWU's Financial Management of any corrective entries that need to be made, and following up to ensure that such corrections are processed accurately.
- e. Preparing and distributing a report each month for AWU's Financial Management which summarizes fleet related expenditures, any errors or anomalies identified, and budget vs. actual comparisons.

11. To ensure AWU Warehouse interface to AFS3 is functioning effectively, the Director of AWU should continue working with the Controller's Office to
- a. resolve identified issues, including synchronization, stock balances, pricing, and warehouse-specific information;
  - b. ensure software changes are fully tested before being put into production; and
  - c. coordinate on the timing and strategy for possible Maximo integration or conversion to other software to meet identified functional needs.

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### MANAGEMENT RESPONSE:

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Concur.

- 11a. An updated version of ASAP (the Utility's inventory bar code reading system) was tested and installed by Greg Hall, Programmer Analyst Sr., in the Austin

Water Utility on December 12, 2007. Data synchronization between ASAP and AFS3 will go into production the week of January 14, 2008. All stock item info on AFS3 for the two warehouses will be copied down to the ASAP system at the last step in the end-of-day process (AFS3/Hansen file creation). Individual item pricing for each warehouse as maintained on AFS3 will be reflected on ASAP.

- 11b. Brownlee Bowmer, Chief Information Officer, in the Austin Water Utility will ensure proper programming standards and testing followed.
- 11c. AWU will continue to work with the Controller's Office to coordinate any possible integration solutions.

- 12. To ensure that incomplete uploads (past and future) and suspense transactions are identified and resolved in a timely manner, the Director of AWU should establish a systematic approach and apply sufficient staffing to monitor current upload activity while reviewing and resolving any issues with past uploads from FY07 since the ASAP database was modified.

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**MANAGEMENT RESPONSE:**

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Concur.

Tammie Dahlberg, Accountant Associate, in the Austin Water Utility receives a daily report from the Controller's Office identifying how many transactions were uploaded successfully, failed or did not upload. This report is used to make corrections daily. Tammie Dahlberg, Accountant Associate, in the Austin Water Utility will use InfoAdvantage to run a report of transactions for all of fiscal year 2007. Any skipped transactions will be researched and entered into AFS3 if needed. It is anticipated that this will be completed by March 31, 2008.

- 13. To ensure all warehouse transactions are appropriate and authorized, the Director of AWU should ensure sound inventory management practices are in place, including segregation of duties in requesting and approving inventory issues and/or compensating controls such as reconciliations; use of authorized signature lists for all departments using inventory from the warehouse; and monitoring to ensure these controls are effective.

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**MANAGEMENT RESPONSE:**

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Concur.

Greg Torres, Materials Control Supervisor, in the Austin Water Utility is currently collecting authorized signatures for AWU divisions. Authorized signatures for other departments will also be collected. It is anticipated that this will be completed by March 31, 2008.

- 15. To ensure the reliability of Procard transactions, the Director of AWU should ensure that all Procard documentation meets established requirements for the Procard

program and that supervisory monitoring is sufficient to detect and correct unsupported transactions.

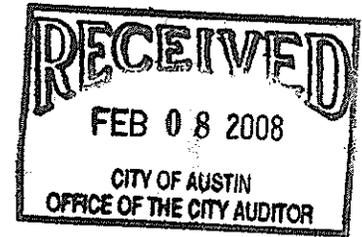
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**MANAGEMENT RESPONSE:**

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Concur.

The transactions sampled by OCA consisted of those related to a particular “contract” card designated specifically for a contracted service such as Office Depot for office supplies, as opposed to individual employees cardholders’ transactions. Since the two Procard “sub-programs” are processed minimally differently in practice, it is possible that deadlines were not communicated as well to contract card users as they are to regular cardholders. Pam Hurt, Financial Manager, in the Austin Water Utility, has implemented a new notification process for the contract card users. Pam Hurt is developing a system to identify missing contract card receipts, document follow-up activity and identify training opportunities. This is nearly complete, with implementation expected by January 18, 2008. That system will be enhanced and implemented for individual cardholders’ records by February 29, 2008. By the same date, AWU will begin consideration of implementing penalties for noncompliance with Procard program requirements along the lines of those suggested in the October 1, 2007, Procard Administrative Bulletin..



## MEMORANDUM

**TO:** Steve Morgan, City Auditor  
**FROM:** Tom Wiczorek, Fleet Officer  
**DATE:** February 4, 2008  
**SUBJECT:** Fleet Response and Action Plan for AFS3 Data Reliability Audit

Please find attached the Fleet responses and action plans for the AFS3 Data Reliability Audit. Below is approval from Leslie Browder, Chief Financial Officer. Please contact me at 974-1541 if you need any further information.

Tom Wiczorek  
Fleet Officer

**Approval:**

Leslie Browder, Chief Financial Officer

**CC:** Jeff Knodel, Deputy CFO  
Vickie Schubert, Deputy CFO  
Larry Morris, IT Manager  
Lea Sandoz, Deputy Controller  
C'Anne Daughtery, Assistant City Auditor  
Joan Ewell, Auditor in Charge

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**ACTION PLAN  
AFS3 DATA RELIABILITY AUDIT**

<b>Rec. #</b>	<b>Recommendation Text</b>	<b>Proposed Strategies for Implementation</b>	<b>Status of Strategies</b>	<b>Responsible Person/Phone Number</b>	<b>Proposed Implementation Date</b>
07. To ensure the accuracy and correctness of Fleet charges to Fleet user departments and individual activities that are charged through automatic uploads to AFS3, the Fleet Officer should: e. Establish a process for ensuring vehicle assignments to departmental accounts are consistent between M4 and Wright Express systems, and that updates are made to both systems as vehicle acquisitions, transfers, and retirements are made, with review and verification on the input step. f. Establish responsibility for reviews to ensure that charges to departments are accurately calculated and that a reconciliation is performed between the billed charges and what is posted to AFS3; and establish monitoring procedures to ensure such reviews and reconciliation's are performed. g. Assess and revise financial staff organization and roles and responsibilities to provide for sufficient segregation of duties and review of transactions, clarifying operational/financial ownership responsibilities for data quality supported by technical data support roles and responsibilities.	Concur	<ul style="list-style-type: none"> <li>a. Fleet staff will establish procedures to ensure consistency among departmental accounts by developing data exception processes and to ensure a consistent process exists for adding and modifying departmental accounts. In addition, departments will be provided a list of vehicles and related accounts for review on a quarterly basis.</li> <li>b. Financial staff will establish a review process to ensure charges are accurate, In addition, staff will perform a monthly reconciliation between AFS3 and billed charges</li> <li>c. Fleet management will review organizational roles and responsibilities to provide for sufficient segregation of duties</li> </ul>	Underway	Fleet Officer/974-1795	March 2008

		and ensure data quality procedures are in place. The Controller's Office has established two workflow approval levels to process changes to documents uploaded in AFS3			
08. To ensure Fleet billings are accurate and correct and that Fleet is able to resolve billing issues by month-end each month, the Fleet Officer should: <ul style="list-style-type: none"> <li>a. Establish documented procedures and/or service agreements with departments for resolving fleet charging issues, with notification and response times clarified.</li> <li>b. As part of these agreements, establish documented departmental Fleet Liaison roles and responsibilities to include assistance in resolving fleet charging issues with departments, and require departments to identify single points of contact (SPOCs) for resolving billing issues.</li> <li>c. Establish or revise documented policies and procedures to clarify documentary support required for transactions, including correcting journal vouchers.</li> </ul>	Concur	<ul style="list-style-type: none"> <li>a. Fleet staff will establish procedures to ensure resolution of billing issues, including departmental response times</li> <li>b. Fleet staff will develop service agreements with all customer departments detailing billing methods and response times for resolving charges. As a part of the service agreement, Fleet will require that departments identify a liaison or SPOC to resolve billing issues</li> <li>c. Fleet financial staff will establish supporting documentation policies for AFS3 transactions</li> </ul>	Underway	Fleet Officer/974-1795	April 2008
09. To ensure departments are able to verify Fleet charge accuracy & appropriateness to departmental activities and accounts, the Fleet Officer should: <ul style="list-style-type: none"> <li>a. Work with Fleet user departments to assess departmental needs for reporting to allow verification of fleet charges to departments, and develop such</li> </ul>	Concur	<ul style="list-style-type: none"> <li>a. Fleet staff will meet with customers to determine reporting needs and follow-up to ensure that the reports are meeting the needs of the customer.</li> <li>b. Fleet financial staff will</li> </ul>	Underway	Fleet Officer/974-1795	March 2008

<p>reporting and distribution of reports to address identified needs.</p> <p>b. Notify departments when charges are made that are not supported by established charging arrangements and include this notification in documented procedures for resolving charging issues.</p>		<p>develop policies and procedures for use within Fleet to notify departments of any charges outside the established process and a process to resolve any charging issues in a timely manner</p>			
<p>10. To ensure Fleet's ability to effectively and efficiently manage the billing aspect of Fleet's services to fleet user departments, the City's CFO should coordinate with responsible Assistant City Managers to require that as a condition of use of fleet vehicles and services, departments must establish appropriate budget lines for fleet charges and work with Fleet staff to ensure billing issues are resolved throughout the year. The CFO should also establish monitoring tools (such as performance measures, exception reports, or escalation notification procedures) to ensure these objectives are achieved.</p>	<p>Concur</p>	<p>Fleet Services will compile a monthly exception report and identify any recurring billing issues and forward to the CFO for follow-up with the department. Continuing problems will be elevated to the appropriate assistant city manager.</p>	<p>Planned</p>	<p>Leslie Browder/974-2283</p>	<p>March 2008</p>

Status of strategies: planned, underway, or implemented.

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