



CITY OF ATLANTA

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DEPARTMENT OF PROCUREMENT
Adam L. Smith, Esq., CPPO, CPPB, CPPM, CPP
CIPC, CISCC, CIGPM, CPPC
Chief Procurement Officer
asmith@atlantaga.gov

Kasim Reed
Mayor

August 19, 2016

Dear Potential Proponents:

Re: FC-9112, External Financial Audit Services

Attached is one (1) copy of **Addendum Number 1**, which is hereby made a part of the above-referenced project.

For additional information, please contact Krista A. Morrison, Esq., at (404) 865-8709 or by email at kamorrison@atlantaga.gov.

Sincerely,



Adam L. Smith

ALS/kam



ADDENDUM NO. 1

This Addendum No. 1 forms a part of the Request for Proposals and modifies the original solicitation package as noted below and is issued to incorporate the following:

- 1) **Extension of Proposal Due Date:** The Proposal due date has been extended to **Wednesday, September 7, 2016, at 2:00 P.M. EDT;**
- 2) **Responses to Questions:** Total of fifty-six (56) questions, attached hereto as Attachment No. 1.;
- 3) **Revision of Exhibit A: Scope of Services, Section A: Scope of Work.** The statement “The audit firm is also required to audit the combining and individual fund financial statements and supporting schedules and the schedule of federal assistance.” is hereby removed;
- 4) **Attachment No. 2: Single Audit Reports:** attached hereto as Attachment No. 2; and
- 5) **Attachment No. 3: Management Letters:** attached hereto as Attachment No. 3.

The Proposal due date HAS been modified and Proposals are due on Wednesday, September 7, 2016 and should be time stamped in no later than 2:00 P.M. EDT and delivered to the address listed below:

Adam L. Smith, Esq., CPPO, CPPB, CPPM,
CPP, CIPC, CISCC, CIGPM, CPPC
Chief Procurement Officer
Department of Procurement
55 Trinity Avenue, S. W.
City Hall South, Suite 1900
Atlanta, Georgia 30303

****All other pertinent information is to remain unchanged****

Acknowledgment of Addendum No. 1

Proponents must sign below and return this form with Proposal response to the Department of Procurement.

Proponents must sign below and return this form with Proposal response to the Department of Procurement, 55 Trinity Avenue, City Hall South, Suite 1900, Atlanta, Georgia 30303 as acknowledgment of receipt of this Addendum.

This is to acknowledge receipt of **FC-9112, External Financial Audit Services, Addendum No. 1** on this the _____ day of _____, 20__.

Legal Company Name of Proponent

Signature of Authorized Representative

Printed Name

Title

Date

Attachment No. 1
Questions and Answers

Questions and Answers

- 1) In prior years, have there been any delays in the audit due to delays in receiving information from third parties or other reasons?

Answer: In recent years there have been minor delays in the audit primarily due to implementation of new Governmental Accounting Standards Board rules requiring input from outside parties.

- 2) Were there any disagreements with the current auditor?

Answer: No.

- 3) Have there been any recent audits from federal departments noting compliance issues?

Answer: We are aware of the following federal audits of grant programs between 2014 and 2016 noting compliance issues: Public Safety grants, audited by Dept. of Justice; Workforce Development grants, audited by Dept. of Labor; Weed & Seed grants, audited by Dept. of Labor.

- 4) What were the 2014, 2015 and 2016 audit fees in total? Have there been any out of scope billings over the past three years?

Answer: You may submit an open records request for this information. There haven't been any out of scope billings related to the audit.

- 5) Were any significant deficiencies or material weaknesses issued over the past three years? If so, could the letter documenting these issues be provided?

Answer: There have been significant deficiencies and material weaknesses issued over the past three years. See **Attachment No. 3: Management Letters**.

- 6) How many audit adjustments were made for fiscal year 2015?

Answer: One (1) recorded adjustment and nine (9) unrecorded adjustments were made for FY15.

- 7) Does the city have internal documentation of controls over key financial cycles?

Answer: Yes

- 8) Have any year end asset/liability/deferred outflows or inflows accounts been difficult to audit in prior years?

Answer: No, these accounts have not been especially difficult to audit.

- a. Are detailed sub ledgers maintained for material receivables and accrued liability balances?

Answer: Yes, transaction detail for receivables and accrued liabilities are maintained in sub-ledgers.

9) Is the City current on the continuing disclosure requirements related to public debt?

Answer: Yes.

10) Please provide the approximate date(s) when the trial balances for the individual funds will be ready for the auditor.

Answer: The trial balance report is provided to the auditors at the end of August.

11) What was the timing of preliminary and final fieldwork in the past? Will the City be requesting different timing under this audit contract?

Answer: Generally the reliability testing on financial systems (IT audit) begins the first part of April. The IT audit is completed in June. The preliminary fieldwork (interim audit work) in the areas of pensions, revenues, accounts payable, capital assets, procurement, debt and controls begins before the end of April. Preliminary work wraps up the middle of July, thus giving the City sufficient time to close the fiscal year and prepare for the final fieldwork. A period 13 is opened in which the City is reviewing and making final entries to close the fiscal year in August. Final fieldwork begins after Labor Day.

The City does not anticipate changing this timing under a new audit contract.

12) How many weeks are the auditors typically on site for preliminary and final fieldwork for the audit, including at each the funds' locations with separate deliverables?

Answer: For preliminary fieldwork, see Response #11. The final fieldwork begins after Labor Day. The Department of Watershed Management and the Department of Aviation will finish early to mid-November. The Central Government field work is completed the end of November. See Response #11 for further detail relating to the preliminary fieldwork.

13) Page 5 of Exhibit A indicates that the auditor will provide the City Auditor with monthly reporting of budgeted hours to actual. Can you please provide us with this budget to actual summary report for the June 30, 2015 audit?

Answer: The total audit hours for the fiscal year 2015 audit were:

Central Government	4,162
Watershed	1,965
Pensions	1,917
A133	1,453
Airport	1,382
Total	10,879

We did not track budget to actual variances in the last few years of the contract.

14) Has the City implemented policies and procedures to reflect the requirements of the newly issued uniform grant guidance including procurement policies, subrecipient monitoring, determining whether cross-over grants follow new or old guidance and allowable costs?

Answer: The City is implementing the Uniform Grant Guidelines. The exception is the procurement area, which the City has elected to delay until July 1, 2017.

15) Please provide the number of hours by project that has been spent by the previous auditors.

Answer: See Response #13.

16) Please provide the current subcontractors/SBEs that are currently working with the prime contractor on the current audit contract? Please also provide an assessment of the performance of these SBEs/subcontractors.

Answer: You may submit an open records request for this information. The subcontractors are selected by the primary audit firm, and that firm assesses the performance of its subs.

17) Can you provide the expectations for attending council and committee meetings of the selected firm?

Answer: The audit firm presents twice each year to the Audit Committee: its risk assessment and approach early in the audit, and its results, management letter observations and required communications when the audit is completed. The audit firm also presents audit results and management letter observations to the Finance Executive Committee of the City Council. Finally, the audit firm presents each of the three pension plan audits to the respective pension board. The selected firm is also expected to attend the Finance Executive Committee meeting when they take up legislation to approve the new contract in November or December of 2016. If the contract is renewed after the 3-year contract period, the firm would attend the FEC meetings when the one-year renewals are discussed.

a. Also are there separate meetings the auditor should plan on attending for the Department of Watershed and Aviation that are required.

Answer: During the audit there are separate regular meetings with the Departments of Watershed, Aviation and Finance, as well as the administrators for the pension boards and the departments who manage grants included in the Single Audit/Uniform Guidance.

18) What is the timing of interim work performed by the current auditors? If interim work has been performed, has it been performed for both the financial audits and the single audit?

Answer: See Response #11 for timing of interim audit work. This has not generally included work on the single audit.

19) When will the books be closed and ready for the final audit work to be performed?

Answer: See Response #12.

20) Please provide a listing of the various IT systems that are used to process financial transactions that are subject to review by the auditors?

Answer: IT testing includes two city-wide systems, two systems used only by Watershed Management, and one system used only by Aviation:

- i. **Oracle E-Business Suite(ERP)-GF** : City-wide collection of integrated internet-based applications that includes Financial Management, Human Capital Management, Advanced Procurement, and Business Intelligence modules.
- ii. **Kronos Workforce Central-GF** : City-wide web-based time and attendance application that records hours of work and use of leave for all city employees and provides data for payroll.
- iii. Department of Watershed Management
 - **enQuesta:** Billing system for water and sewer customers.
 - **Equinox:** an automated meter reading system that provides usage data to enQuesta.
- iv. Department of Aviation
 - **Propworks-DOA:** used to manage leases, property, and revenue collection for the airport.

21) When is the Schedule of Expenditures of Federal Awards (SEFA) generally available?

Answer: A draft of the SEFA is available the end of July. After the books are closed at the end of August, the final SEFA is available in September.

22) Can you provide a three-year schedule of Major programs that have been audited by the current auditors?

Answer: See **Attachment No. 2: Single Audit Reports.**

23) What were the audit adjustments for the last 2 years?

Answer: See Response #6 for FY15 adjustments. For FY14 there were three (3) recorded and twenty (20) unrecorded adjustments.

24) What are the required Communications Letter and Management letter for the last 2 years?

Answer: See **Attachment No. 3: Management Letters.** Required communications to the audit committee have included no issues that required disclosure.

25) Can the City provide the single audit report for the last 2 years?

Answer: See **Attachment No. 2: Single Audit Reports.**

26) Has audit fieldwork for aviation, watershed and general/other funds typically been conducted simultaneously?

Answer: Yes.

27) Can the City provide a breakdown of hours and fees for the last 2 years of audit by area? Any amounts directly paid to Subs?

Answer: See Response #3 for hours. The City does not directly pay subcontractors. Fee information may be requested through an open records request.

28) Did incumbent auditor sub 35% last 2 years? If so, who were the sub(s)?

Answer: The incumbent audit firm has subcontracted a total of 26.4% in each of the 5 years of the contract, 18.1% to a minority-owned business and 8.3% to a female-owned business. You may submit an open records request for the names of the firms. The data on which the percentages are based have been recently updated, leading to the increased percentage.

29) Has the incumbent done any preliminary fieldwork prior to year-end?

Answer: Yes.

30) For the Employee Benefit Plans, when is the fieldwork performed on these?

Answer: Preliminary fieldwork in the April through mid-June timeframe. Final fieldwork begins the mid-September and ends the third week in October. Pension reports are issued no later than October 31st.

31) When does the City plan on awarding the engagement?

Answer: We hope to notify the winning proponent by mid-October and introduce legislation for City Council approval of the contract by mid-November.

32) Exhibit A, p.1 of the RFP states that “The audit firm is also required to audit the combining and individual fund financial statements and supporting schedules and the schedule of federal assistance.” We note that the level of assurance provided by the audit firm in 2015 associated with these deliverables consisted of “in-relation-to” opinions, rather than “full-scope audit” opinions as requested in the RFP. Can you confirm that the required level of assurance associated with these deliverables is consistent with that provided in 2015, or has the required level of assurance been changed?

Answer: This sentence was included in error and should be disregarded. The incumbent audit firm’s “in relation to” opinion language is the level of assurance that the City requires.

33) Exhibit A, p.2 of the RFP, *Schedule of Deliverables*. The second deliverable in the schedule is identified as “Report on Internal Controls”. Can you confirm whether this is intended to identify the Report on Internal Control over Financial Reporting and Compliance with Laws, Regulations, and Contracts at the entity level (the Yellow Book Report)?

Answer: Yes. The Report on Internal Control is intended to identify reporting on internal control and compliance with provisions of laws, regulations, contracts and grant agreements as required by *Government Auditing Standards* (2011) 4.19-4.29.

34) What is the timeline when the City will have Final Trial Balance available?

Answer: The final trial balance is provided to the auditor no later than September 1st.

35) What is the timeline for the City to generate Financial Statements and Notes disclosures?

Answer: A draft of the Comprehensive Annual Financial Report (CAFR), including all financial statements, is provided to the auditor by the end of October.

36) Can you expound on the responsibility of the independent auditor in assisting in the preparation of the Comprehensive Annual Financial Report?

Answer: Management is responsible for the preparation of the CAFR, which is inclusive of the financial statements. The independent auditor assists in the preparation by auditing and reviewing the CAFR and provides feedback.

37) What software and/or platform is utilized as CAFR reporting model?

Answer: The Oracle ERP system includes the financial module that “houses” the City’s financial data. The financial data is pulled from the ERP System using Hyperion to run the financial statements used in the CAFR. The CAFR, notes and tables are prepared using MS Word and Excel.

38) Will the City be responsible to submit required data to the Clearinghouse in regards to the OMB Uniform Grant Guidance Report?

Answer: No. The auditing firm will be required to submit data to the Clearinghouse.

39) What deliverable reports are subject to the Multiple Award provision in the RFP?

Answer: The Audit Committee is unlikely to make multiple awards for this RFP. This language is included in most City solicitations, but it is not anticipated in this case.

40) In the more recent audits, what was the City's experience in regard to timeliness in reference to the audit deliverables from the discretely presented component units?

Answer: The City experienced late receipt of the draft and final CAFR from one component unit in FY15. Otherwise, they have been generally timely.

41) In Scope of Services page 4, 5th paragraph addresses out of scope work and its per diem or hourly rate, should this be addressed in Cost Proposal Exhibit A.1?

Answer: Yes.

42) What were the corresponding and respective fees for the deliverables in the 2015 audit?

Answer: See Response #4.

43) What were the nature and number of Journal Entries made by the independent auditor in 2015 Audit?

Answer: There were no Journal Entries made by the independent auditor in FY15. See previous questions about audit adjustments, recorded and unrecorded.

44) What were the actual hours incurred by the independent auditor in 2015 Audit?

Answer: See Response #13.

45) Section 3.2.3.2.7 requires a list of five (5) references as part of the resumes of key team members. This section refers to the Required Submittal Form 7, Reference List. At that form (Part IV), it requires three (3) references of the Proponent. Are you requiring 5 references at the key team member level, 5 references at the Proponent level, or is the requirement for 3 at the Proponent level, or something different?

Answer: References are requested both for Key Personnel, as well as at the Proponent level. We are requesting that the resumes for key personnel include reference contacts for the listed relevant projects, which should be a minimum of five (5). Required Submittal Form 7 requests three (3) references at the Proponent level.

46) On page 7 of Part 1 of the RFP, section 3.2.3.2.7 states that a minimum of five references are required, and indicates that Form 7 must be included. Can you please clarify this requirement? As this is under the team member resume section 3.2.3.2, are we to include 5 Form 7's for each team member as individual references? Additionally, Form 7 indicates that there must be a minimum of three references provided, but section 3.2.3.2.7 indicates that the minimum is five.

Answer: See Response #45.

47) Please confirm how many references the City requires, in which sections and in what format (ex. form or no form)

Answer: See Response #45.

48) The link included in the RFP to allow prime bidders to obtain a listing of certified SBEs is not currently working. Can a revised link be provided ASAP?

Answer: The link was previously under repair. It is now fully operable. Go to: www.atlantaga.gov/contractcompliance to access the listing of certified SBEs.

49) On page 1 of the Small Business Opportunity Program Policy Statement, the last sentence refers to goals for minority and female business enterprises. Should this read “small business enterprises”?

Answer: Yes. The goals for this project are for certified Small Business Enterprises (SBE).

50) Section 3.2.5 requests a letter from each essential subcontractor/sub-consultant indicating that the firm concurs with the role and responsibility the proponent describes. Is this requirement satisfied by submitting the “Letter of Intent” form provided in the SBE section of Appendix A or does the City require a separate letter on letterhead from the sub in addition to the “Letter of Intent” form?

Answer: All proponents must submit a signed “Letter of Intent” for each sub-consultant included in their proposal. Please be sure to have ALL sub-consultants sign the Letter of Intent for inclusion in the proposal prior to the proposal due date.

51) Appendix A of the RFP, p.5 the SBE compliance letter – How should proposing firms interpret the 35% SBE participation rate? For example, is that to be interpreted as maximum SBE participation, minimum SBE participation, target SBE participation, or should it be interpreted in some other way?

Answer: The 35% SBE sub-consultant participation guideline should be interpreted to mean that each proponent should subcontract a minimum of 35% of the overall project to certified SBEs.

52) Appendix B – Insurance and Bonding Requirements. Based on the review of this section by our insurance carrier we have identified three exceptions that would have to be revised prior to the signing of the required Insurance Form 4.1 by the insurance carrier. They are as follows: 1) Our Workers’ Compensation is \$500,000, not \$1,000,000. Our umbrella policy would cover any overage; 2) Our professional liability is per claim, not occurrence and 3) We don’t have any owned vehicles so our automobile insurance won’t state that. Can we make those changes on the Insurance Form 4.1?

Answer: 1) The Workers Compensation limit will remain the same, but if you have a umbrella policy that covers the difference between the coverage you have and the required coverage then this will suffice. 2) Professional liability coverage must have a \$1,000,000 limit per occurrence and annual aggregate. 3) If you are selected for the contract and your company does not own vehicles this coverage may be waived.

53) Does the attached [Company's Business Information entry], pulled from the Georgia Secretary of State website, satisfy the "Certificate of Authority" required on Form 2?

Answer: Yes.

54) Form 4.1-Insurance- Does it cover all insurance and can copies be made if more than one insurance company are applicable?

Answer: Yes.

55) Part V - Draft professional services agreement - Our legal counsel is reviewing the draft document included in the RFP. If there are edits requested by our legal counsel should we indicate those suggested edits in our response to the RFP or should that wait till a firm is selected and then those items will be worked out at that time with the selected firm?

Answer: Please include any requested modifications to the draft Professional Services Agreement within Volume II of your proposal.

56) Can the City expound on what specific information in RFP in the City's opinion should be redacted in reference to CD #2?

Answer: As stated in the RFP, CD Two (2) should be a redacted version of the hard copy Proposal. Please refer to the Georgia Open Records Acts (O.C.G.A. § 50-18-72) for information not subject to public disclosure.

Attachment No. 2
Single Audit Reports



CITY OF ATLANTA, GEORGIA

Single Audit

June 30, 2013

(With Independent Auditors' Report Thereon)

CITY OF ATLANTA, GEORGIA

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KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and
Members of City Council
City of Atlanta, Georgia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Atlanta, Georgia (the City) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 12, 2013. Other auditors audited the financial statements of the Atlanta-Fulton County Recreation Authority, Atlanta Development Authority, and Atlanta Housing Opportunity, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2013-001 through 2013-004 that we consider to be significant deficiencies.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Atlanta, Georgia
December 12, 2013

CITY OF ATLANTA, GEORGIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

Grantor/program title	CFDA no.	Pass-through or grant no.	Expenditures
U.S. Department of Homeland Security:			
ARRA-TSA Airport Checked Baggage Inspection System	97.117	HSTS04-09-H-REC154	\$ 1,162,209
Passed-through Georgia Emergency Management Agency (GEMA):			
Buffer Zone Protection – Critical Infrastructure & Key Resources – 2010	97.078	2010-BF-T0-0009	378,982
Buffer Zone Protection – Airport Explosive Ordinance Disposal	97.078	2010-SS-T0-0034	266,640
Total CFDA no. 97.078			<u>645,622</u>
Homeland Security – Airport 2008	97.067	2008-GE-T8-0017	115,000
SAFER -Assistance to Firefighters Grant	97.044	EMW 2010-FH-0118	4,540,510*
SAFER -Assistance to Firefighters Grant	97.044	EMW-2010-FP-09882	140,543*
SAFER -Assistance to Firefighters Grant	97.044	EMW-2011-SS-00081-S01	5,590*
Total CFDA no. 97.044			<u>4,686,643</u>
Fire Prevention and Safety	97.022	EMW 2010-FP-02006	56,638
Non-Profit Security Program – SWAT 2010	97.008	2010-SS-T0-0034	31,654
Non-Profit Security Program – SWAT 2011	97.008	2011-SS-T0-0081	3,450
Total CFDA no. 97.008			<u>35,104</u>
Total U.S. Department of Homeland Security			<u>6,701,216</u>
Executive Office of the President:			
Passed through the Office of National Drug Control Policy:			
2010 High Intensity Drug Trafficking Area	95.001	G10GA0003A	267,676*
2011 High Intensity Drug Trafficking Area	95.001	G11GA0003A	2,311,578*
2012 High Intensity Drug Trafficking Area	95.001	G12GA0003A	3,852,090*
Total Executive Office of the President			<u>6,431,344</u>
Corporation for National and Community Service:			
Passed-through Youthbuild USA:			
Youthbuild PSE	94.006	N/A	97,216
Youthbuild USA – AmeriCorps	94.006	10-NDHMA-0030016	85,523
Total Corporation for National and Community Service			<u>182,739</u>
U.S. Department of Health and Human Services:			
Passed through Department of Behavioral Health and Developmental Disabilities:			
Block Grant for Community Mental Health Services	93.958	441-93-1233AAJ	10,163
Block Grant for Community Mental Health Services	93.958	441-93-1333ACP	33,594
Total U.S. Department of Health and Human Services			<u>43,757</u>
U.S. Department of Energy:			
ARRA-Energy Efficiency and Conservation Block Grant	81.128	DE-EE0000801	3,404,160*
ARRA-Energy Efficiency and Conservation Block Grant	81.128	DE-EE0003575	285,521*
Total CFDA no. 81.128			<u>3,689,681</u>
Clean Cities Administration 2010	81.086	DE-EE0000801	378,000
Clean City EV Grant	81.086	DE-EE0003575	54,000
Total CFDA no. 81.086			<u>432,000</u>
Total U.S. Department of Energy			<u>4,121,681</u>
U.S. Environmental Protection Agency:			
ARRA – Brownfield’s Assessment and Cleanup Cooperative Agreement	66.818	BF-95461210-0	54,079
ARRA – Brownfield Revolving Loan	66.818	BF-95445109-1	825
Total CFDA no. 66.818			<u>54,904</u>
Brownfield’s Training, Research, and Technical Assistance Grant	66.814	TR-83492001-0	137,569
Passed-through Georgia Department of Natural Resources:			
Water Quality Cooperative Agreement – McDaniel Branch			
Stream Restoration	66.436	N/A	21,179
Total U.S. Environmental Protection Agency			<u>213,652</u>
National Endowment for the Arts:			
Promotion of the Arts – Grants to Organizations and Individuals	45.024	10-6200-7035	7,371
U.S. Department of Agriculture:			
Passed-through Georgia Department of Early Care and Learning:			
2012 Summer Food Service Program	10.559	8076	348,054
U.S. Department of Housing and Urban Development:			
Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	14.856	GA-06-5269-01	319,206*
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	GA-06-5269-05	277,918*
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	GA-06-5269-06	575,766*
Total CFDA no. 14.249			<u>853,684</u>
Total Lower Income Housing			<u>1,172,890</u>

CITY OF ATLANTA, GEORGIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

Grantor/program title	CFDA no.	Pass-through or grant no.	Expenditures
Community Development Block Grant (CDBG) Cluster:			
CDBG – 91	14.218	B91-MC-13-002	\$ 680*
CDBG – 96	14.218	B96-MC-13-002	9,538*
CDBG – 97	14.218	B97-MC-13-002	12,118*
CDBG – 98	14.218	B98-MC-13-002	15,697*
CDBG – 99	14.218	B99-MC-13-002	7,578*
CDBG – 00	14.218	B00-MC-13-002	57,261*
CDBG – 01	14.218	B01-MC-13-002	97*
CDBG – 02	14.218	B02-MC-13-002	16,869*
CDBG – 03	14.218	B03-MC-13-002	1,050*
CDBG – 04	14.218	B04-MC-13-002	50,528*
CDBG – 05	14.218	B05-MC-13-002	434,578*
CDBG – 06	14.218	B06-MC-13-002	345*
CDBG – 07	14.218	B07-MC-13-002	127,552*
CDBG – 08	14.218	B08-MC-13-002	51,395*
CDBG – 09	14.218	B09-MC-13-002	733,792*
CDBG – 10	14.218	B10-MC-13-002	823,637*
CDBG – 11	14.218	B11-MC-13-002	1,852,602*
CDBG – 12	14.218	B12-MC-13-002	4,144,738*
CDBG – 13	14.218	B13-MC-13-002	75,546*
Neighborhood Stabilization Program	14.218	B-08-MN-13-0001	2,243,153*
Neighborhood Stabilization Program	14.218	B-11-MN-13-0001	3,057,254*
Passed through Georgia Department of Community Affairs: Neighborhood Stabilization Program	14.218	08-NS-5054	264,322*
Total CFDA no. 14.218			<u>13,980,330</u>
ARRA – CDBG 2008	14.253	B-09-MY-12-002	47,295*
Total CDBG Cluster			<u>14,027,625</u>
Emergency Shelter Grant Program (ESGP):			
ESGP-2010	14.231	E-10-MC-13-0002	378
ESGP-2011	14.231	E-11-MC-13-0002	235,137
ESGP-2012	14.231	E-12-MC-13-0002	502,133
Total CFDA no. 14.231			<u>737,648</u>
HOME Investment Partnership:			
HOME-2000	14.239	M-00-MC-13-0200	1,974*
HOME-2003	14.239	M-03-MC-13-0200	22,477*
HOME-2005	14.239	M-05-MC-13-0200	3,166*
HOME-2006	14.239	M-06-MC-13-0200	117,896*
HOME-2008	14.239	M-08-MC-13-0200	140,169*
HOME-2009	14.239	M-09-MC-13-0200	773,770*
HOME-2010	14.239	M-10-MC-13-0200	509,401*
HOME-2011	14.239	M-11-MC-13-0200	1,708,586*
HOME-2012	14.239	M-12-MC-13-0200	604,571*
Total CFDA no. 14.239			<u>3,882,010</u>
Housing Opportunities for Persons with Aids (HOPWA):			
HOPWA 2003	14.241	GA05H03-F025	12,766*
HOPWA 2004	14.241	GA05H04-F025	85,549*
HOPWA 2010	14.241	GA05H10-F025	2,098,013*
HOPWA 2011	14.241	GA05H11-F025	4,655,007*
HOPWA 2012	14.241	GA05H12-F025	3,379,096*
Total CFDA no. 14.241			<u>10,230,431</u>
Lead-Based Paint Hazard Control in Privately Owned Homes			
Passed through Georgia Department of Community Affairs:	14.900	GALHB0463-10	883,195
AHA Catalyst 2010	14.881	2010-00-79001	1,903
AHA Catalyst 2011	14.881	2011-00-79001	126,626
AHA Catalyst 2012	14.881	2012-00-79001	186,953
Total CFDA no. 14.881			<u>315,482</u>
Total U.S. Department of Housing and Urban Development			<u>31,249,281</u>
U.S. Department of Justice:			
ARRA – Edward Byrne Memorial Justice Assistance Program	16.804	2009-SB-B9-1100	397,521
Edward Byrne Memorial Justice Assistance Program	16.738	2009-DJ-BX-0422	59,368
Edward Byrne Memorial Justice Assistance Program	16.738	2011-DJ-BX-3432	441,592
Edward Byrne Memorial Justice Assistance Program	16.738	2012-DJ-BX-0419	157,319
Total CFDA no. 16.738			<u>658,279</u>
Passed through Youthbuild USA:			
Juvenile Mentoring	16.726	2009-JU-FX-0004	38,448
ARRA – Community Oriented Policing Services (COPS)	16.710	2009-R-JWX0038	3,143,679
ARRA – Community Oriented Policing Services (COPS)	16.710	2012-UL-WX0012	152,186
			<u>3,295,865</u>

CITY OF ATLANTA, GEORGIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

Grantor/program title	CFDA no.	Pass-through or grant no.	Expenditures
Bulletproof Vest Partnership Program – 2008	16.607	2008-BZ-T8-0034	\$ 625
Bulletproof Vest Partnership Program – 2009	16.607	2009-BF-T9-0030	347
Bulletproof Vest Partnership Program – 2010	16.607	2010-BF-T0-0009	1,250,000
Total CFDA no. 16.607			<u>1,250,972</u>
Passed through Governor's Office for Children and Families:			
Juvenile Accountability Block Grant	16.523	JB-09FM-0003	13,269
Juvenile Accountability Block Grant	16.523	JB-10FM-0001	38,274
Total CFDA no. 16.523			<u>51,543</u>
Total U.S. Department of Justice			<u>5,692,628</u>
U.S. Department of Labor:			
Workforce Investment Act (WIA) Cluster:			
Passed-through Georgia Department of Labor:			
ARRA – WIA Adult 2009	17.258	32-09-11-03-003	35*
WIA Adult PY2010	17.258	10-10-11-03-003	70*
WIA Adult FY2011	17.258	11-11-11-03-003	35,761*
WIA Adult PY2011	17.258	10-11-11-03-003	54,006*
WIA Adult PY2012	17.258	11-12-12-03-003	19,051*
Passed-through Governor's Office of Community Development:			
WIA Adult FY2012	17.258	11-12-11-03-003	1,153,613*
WIA Adult FY2013	17.258	11-12-13-03-003	161,681*
Total CFDA no. 17.258			<u>1,424,217</u>
Passed-through Georgia Department of Labor:			
WIA Youth PY2010	17.259	15-10-11-03-003	849,911*
WIA Youth PY2011	17.259	15-11-11-03-003	1,870,045*
Passed through Governor's Office of Community Development:			
WIA Youth PY2011	17.259	15-12-11-03-003	462,441*
Total CFDA no. 17.259			<u>3,182,397</u>
Passed-through Georgia Department of Labor:			
ARRA – WIA Dislocated Worker	17.260	34-09-11-03-003	1,740*
WIA-Dislocated Worker PY2010	17.260	30-10-11-03-003	682*
WIA-Dislocated Worker FY11	17.260	31-11-11-03-003	4,572*
Passed-through Governor's Office of Community Development:			
WIA-Dislocated Worker PY12	17.260	31-12-12-03-003	12,478*
Total CFDA no. 17.260			<u>19,472</u>
Passed-through Georgia Department of Labor:			
WIA-Dislocated Worker PY11	17.278	30-11-11-03-003	57,017*
Passed-through Governor's Office of Community Development:			
WIA-Dislocated Worker FY12	17.278	31-12-11-03-003	476,325*
WIA-Dislocated Worker FY13	17.278	31-12-13-03-003	171,470*
Total CFDA no. 17.278			<u>704,812</u>
Total WIA Cluster			<u>5,330,898</u>
US DOL ETA YouthBuild 2012	17.274	YB-23462-12-60-A-13	155,740
Passed-through Accelerating Connections to Employment:			
ACE Grant 2012-2013	17.283	2013-151	62,181
Total U.S. Department of Labor			<u>5,548,819</u>
U.S. Department of Transportation:			
Passed-through Governor's Office of Highway Safety:			
Highway Planning and Construction	20.205	PI # 0010322 & 0010323	217,048*
Highway Planning and Construction	20.205	PI # 762527, 0000184, 0008614 & 0004493	1,782,512*
Total			<u>1,999,560</u>
Passed-through Georgia Department of Transportation:			
Highway Planning and Construction	20.205	GADOTHNS NUM KX10	224,737*
Highway Planning and Construction	20.205	GADOTHNS 2001 KX70	196,965*
Highway Planning and Construction	20.205	Q0243 CASCADE/MAY	428,936*
Highway Planning and Construction	20.205	Lowery Blvd	301,312*
Total			<u>1,151,950</u>
Total CFDA no. 20.205			<u>3,151,510</u>
Passed-through Governor's Office of Highway Safety:			
State and Community Highway Safety Child Car Safety	20.600	GA-2012-732-00393	12,720
State and Community Highway Safety Child Car Safety	20.600	GA-2013-732-00374	140,721
State and Community Highway Safety Child Car Safety	20.600	GA-2012-195-00359	54,634
State and Community Highway Safety 2010 HEAT Grant	20.600	GA-2012-195-00385	35,386
Total CFDA no. 20.600			<u>243,461</u>

CITY OF ATLANTA, GEORGIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2013

<u>Grantor/program title</u>	<u>CFDA no.</u>	<u>Pass-through or grant no.</u>	<u>Expenditures</u>
Airport Improvement Programs (AIP):			
AIP 67 – Noise Mitigation	20.106	3-13-0008-67	\$ 1,248,296*
AIP 96 – Noise Mitigation	20.106	3-13-0008-96	3,481,243*
AIP 97 – Rehabilitate Taxiway	20.106	3-13-0008-97	35,669*
AIP 102 – Construct Taxiway	20.106	3-13-0008-102	8,652,922*
AIP 104 – Taxiway SC and U-Construction	20.106	3-13-0008-104	8,773,785*
AIP 107 – Runway 26R Runway Protection Zone	20.106	3-13-0008-107	8,055,248*
Total CFDA no. 20.106			<u>30,247,163</u>
Total U.S. Department of Transportation			<u>33,642,134</u>
Total federal expenditures			<u>\$ 94,182,676</u>

* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(1) Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The basic financial statements of City of Atlanta, Georgia (the City), as of and for the year ended June 30, 2013, include the operations of the Atlanta Fulton County Recreation Authority, Atlanta Development Authority and Atlanta Housing Opportunity, Inc. (the component units). The accompanying schedule of expenditures of federal awards does not include federal financial assistance received directly by the component units, because they engaged other auditors to perform an audit in accordance with the Single Audit Act. Accordingly, the accompanying schedule of expenditures of federal awards presents the federal financial assistance programs administered by the City, and does not reflect the federal financial assistance programs administered by the component units.

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting. Under the cash basis of accounting, expenditures are recognized when paid. In instances where the grant agreement requires the City to match grant awards with City funds, such matching funds are excluded from the accompanying schedule of expenditures of federal awards.

Federal grant programs that are administered through State agencies (pass-through awards) have been included in the accompanying schedule of expenditures of federal awards. These programs are operated according to federal regulations promulgated by the originating federal agency providing the funding.

(2) Subrecipients

Federal expenditures provided to subrecipients by the City during the year ended June 30, 2013 are as follows:

<u>Federal program</u>	<u>CFDA number</u>	<u>Amount</u>
Community Development Block Grant Cluster	14.218 and 14.253	\$ 3,413,078
Emergency Shelter Grant Program	14.231	562,137
Housing Opportunities for Persons with Aids (HOPWA)	14.241	10,051,649
HOME Investment Partnership Program	14.239	1,817,161
Total		\$ <u>15,844,025</u>

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

(3) Loans Outstanding

The City uses funds available under the Community Development Block Grant Cluster and HOME Investment Partnership Grant to provide low-interest loans to eligible persons. Principal payments received are used to make additional loans as part of the revolving loan fund. Disbursements of such loans are included as expenditures in the accompanying schedule of expenditures of federal awards in the year of disbursement. The outstanding balance of these loans at June 30, 2013 is as follows:

<u>Federal program</u>	<u>CFDA number</u>	<u>Amount outstanding</u>
Home Investment Partnership Grant	14.239	\$ 13,210,598
Community Development Block Grant Cluster	14.218	5,865,457
		<u>\$ 19,076,055</u>



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

Honorable Mayor and
Members of City Council
City of Atlanta, Georgia:

Report on Compliance for Each Major Federal Program

We have audited the City of Atlanta's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2013. The City's major federal programs are identified in the summary of auditors' results Section of the accompanying schedule of findings and questioned costs.

The City's financial statements include the operations of the Atlanta Development Authority, which received \$1,446,085 in federal awards, which is not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2013. Our audit, described below, did not include the operations Atlanta Development Authority because they engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.



Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-005 through 2013-010. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2013-005 through 2013-013, that we consider to be significant deficiencies.



The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2013, and the related notes to the financial statements. We issued our report thereon dated December 12, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Atlanta, Georgia
March 21, 2014

CITY OF ATLANTA, GEORGIA
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2013

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unmodified**
- (b) Significant deficiencies in internal control were disclosed by the audit of the financial statements: **yes – See Findings 2013-001 through 2013-004**
 Material weaknesses: **no**
- (c) Noncompliance which is material to the financial statements: **no**
- (d) Significant deficiencies in internal control over major federal programs: **yes – See Findings 2013-005 through 2013-013**
 Material weaknesses: **no**
- (e) The type of report issued on compliance for major federal programs: **Unmodified**
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **yes – See Findings 2013-005 through 2013-013**
- (g) Major Federal Programs:

Airport Improvement Program	CFDA # 20.106
Highway Planning and Construction	CFDA # 20.105
HOME Investment Partnership	CFDA # 14.239
Community Development Block Grant Cluster	CFDA # 14.218
ARRA- Community Development Block	
Grant Cluster	CFDA # 14.253
Housing Opportunities for Persons with Aids	CFDA # 14.241
Lower Income Housing Assistance	CFDA # 14.856 and 14.249
Workforce Investment Act Cluster	CFDA # 17.258, 17.259, 17.260, 17.278
ARRA- Workforce Investment Act Cluster	CFDA # 17.258, 17.260
ARRA- Energy Efficiency and	
Conservation Block Grant	CFDA # 81.128
SAFER-Assistance to Firefighters Grant	CFDA # 97.044
High Intensity Drug Trafficking Area	CFDA # 95.001
- (h) Dollar threshold to distinguish between Type A and Type B federal programs: **\$3,000,000**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **no**

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

(2) **Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards***

Finding 2013-001

Accuracy of Accrual for Accounts Payable

Criteria

The process of reviewing invoices received after year end is a crucial component of the Comprehensive Annual Financial Report (CAFR) preparation.

Condition, Cause, and Effect

In the 2012 internal control communications, we noted a material weakness with respect to the accuracy of the accrual for accounts payable. The process in place at that time did not adequately capture year-end accruals, resulting in a significant audit adjustment. During fiscal 2013, the City implemented changes to their process for the accrual of period end liabilities, which relied heavily on the departments tracking invoices and coding them for proper exclusion or inclusion in the year end liabilities. When we tested this listing, it appeared that the departments incorrectly coded items as being related to fiscal year 2013, when in fact, those items were related to fiscal year 2014, or vice versa. This resulted in multiple over and under accruals at year end, although in lower volume and smaller amounts than were noted in 2012, resulting in classification as a significant deficiency, and not a material weakness. The total amounts in error were not material to the CAFR, but the underlying process needs additional revision and users may require additional education to ensure appropriate accounting for future periods.

Recommendation

To the extent that manual accruals are used in the CAFR preparation, it is critical that those responsible for the completeness and accuracy of the accruals are provided training on how to determine the accruals. Also, manually prepared accruals should be reviewed and evaluated for propriety, rather than simply relying on departments for amounts that are being recorded.

Management's Response

The City will continue to refine the processes and procedures used during fiscal year 13 to ensure the completeness and accuracy of recording accruals. This will involve a review of the fiscal year closing process, as well as training personnel in the operating departments. In a decentralized purchasing environment, it is critical that departmental buyers understand the implication of invoices that are submitted for processing after the June 30 fiscal year close.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Finding 2013-002

Monitoring of Service Organizations

Criteria

The City should have processes in place to monitor the service organizations to ensure the completeness and accuracy of the pension plan reporting.

Condition, Cause, and Effect

The City of Atlanta (City) uses outside service organizations to perform various functions for the City of Atlanta, Georgia Firefighters' Pension Plan and the City of Atlanta Georgia Police Officers' Pension Plan (the Plans) including safekeeping of assets, benefits claim processing and record keeping. Although the service organizations are charged with providing these services, the City remains responsible for ensuring that the control environment at the service organization remains sufficient to achieve the completeness and accuracy of plan administration and financial reporting.

During the audit, we noted that the City had obtained a service organization audit report for its Third Party Administrator (TPA), The Zenith Group. However, the service organization audit report did not cover the appropriate reporting periods for the fiscal year under audit. Additionally, the City did not perform any procedures to assess whether the TPA had applicable controls in place during the fiscal year and whether these controls were operating effectively. The lack of a current service organization audit report creates potential exposure to the City of control breakdowns which could impact pension reporting and the completeness and accuracy of financial information.

As a result of the service organization audit report not covering the appropriate periods for the fiscal year under audit, we performed tests of controls at the TPA. For a sample of 40 benefit payments from each Plan, we noted there was no evidence of a second-level review before the release of payment for 4 benefit payments from the Firefighters' Pension plan and 4 benefit payments from the Police Officers' Pension plan. Failure to adequately review benefit payments prior to release could lead to the City making payments in the wrong amount or to participants who are no longer eligible for benefits.

Recommendation

We recommend that management implement procedures that establish requirements for the receipt and documented review of service organization audit reports. These requirements should address the timing of the receipt of the reports, the period covered relative to the City's fiscal year reporting, user control considerations, and the City's overall monitoring process for third party service providers. The City should review all service organization reports for control exceptions that impact the City and ensure that compensating user controls are in place to mitigate the risk of error or material misstatement.

Management's Response

The City agrees with the importance of monitoring the internal control processes of third party service providers (TPAs). The City will continue to stress the importance to its TPAs of producing an annual service organization audit report that could be used by the City's management and external auditors. The timing of the SSAE 16 evaluation of internal controls is based upon the TPA's ability to provide a single report that would serve all of its customers. A report that meets the needs of a majority of a TPA's clients

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

may not cover 9 months of the City's fiscal year. The City is exploring multiple options to address this issue: requiring current TPAs to produce a report the City can use, making it a contract requirement for future TPAs, and having a separate engagement by the City.

Finding 2013-003

Documentation of Deceased Pension Participants

Criteria

The City is responsible for monitoring participants and updating records for those who are deceased timely to ensure proper and timely removal from the pension payroll.

Condition, Cause, and Effect

For a sample of 40 deceased participants from the Firefighter's Pension plan, we noted the City did not adequately maintain a death certificate on file for 2 participants. Additionally, the City was unable to provide a participant file for 1 participant in our sample. For a sample of 40 deceased participants from the Police Officers' Pension plan, we noted the City did not adequately maintain a death certificate on file for 4 participants. Additionally, the City was unable to provide a participant file for 1 participant in our sample. For a sample of 40 deceased participants from the General Employee's pension plan, we noted the City did not adequately maintain a death certificate on file for 2 participants. Failure to maintain adequate records for deceased participants could lead to the City making payments in the wrong amount or to participants who are no longer eligible for benefits.

Recommendation

We recommend the City perform periodic deceased participant review procedures. Periodically, the City should consider analyzing its deceased participant records by selecting a sample of deceased participants and performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records and adjust in those situations where eligibility requirements are no longer met. We also recommend the City consider reconciling deceased participant records to beneficiary payments made to participants to ensure payments are eligible and accurate.

Management's Response

The City Pension Services Department will continue to perform quarterly internal audits for deceased participants to ensure both pension and insurance participants' files are updated with all required information. The Insurance Division and Third Party Administrators (TPAs) have implemented a process to share death certificates for participants who were being provided benefits under the City's pension and/or insurance benefits as a check and balance system. The City and TPAs are prohibited by law from providing any disbursement of a pension beneficiary benefit or life insurance claim without a certified death certificate; therefore, the City is confident that proper documentation was provided prior to any disbursement of pension or insurance death claim funds. The City is planning to conduct an internal audit and file review of the employee benefits files (pension and insurance) by the end of fiscal year 2014 to ensure that all required pension and insurance information is included in the files.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Finding 2013-004

Maintain Documentation for Accrued Balances

Criteria

The process of reviewing invoices received after year end is a significant component of the financial reporting process.

Condition, Cause, and Effect

The City was unable to provide adequate support for an amount accrued and carried forward from the prior year related to the employer contribution receivable from Atlanta Public Schools (APS) in the amount of \$8.3 million. The City indicated that during fiscal year 2011, an adjustment was made to record a receivable for an alleged unfunded portion of the annual required contribution (ARC) for fiscal year 2011. However, upon review of the APS Actuarial Valuation reports and the Schedule of Employer Contributions, the ARC was met and exceeded by APS for fiscal year 2011. Thus, there is no receivable due to the Plan from APS for fiscal year 2011. The failure to properly review and assess this period-end accrual as part of the financial reporting process contributed to this error.

Recommendation

We recommend that the City review and document support for all period-end accrued amounts recorded in the financial statements as part of the period end financial reporting process to ensure current accruals are accurate and previous accruals are still valid or are reversed.

Management's Response

The City agrees with the necessity for period-end accruals to be accurate. The accounts receivable recorded in fiscal year 2011 relates to the Atlanta Public Schools Board Pension. This accrual was requested to be "booked" by the previous external auditors on the premise the employer contribution portion had not been paid. After further review it appears to be in error and will be corrected in fiscal year 2014.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2013-005

Subrecipient Monitoring

Federal Agency:	U.S. Department of Housing and Urban Development
Program:	Home Investment Partnership (HOME)
CFDA #:	14.239
Award #:	M-11-MC-13-0200
Award year:	2011

Criteria

The City is responsible for monitoring subrecipients' use of Federal awards through subrecipient reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

During a review of the total population of 3 subrecipients, monitoring of 1 subrecipient was not performed during the contract term.

Cause and Effect

Management lacks a systemic process to ensure subrecipients are properly monitored during the contract period.

Questioned Cost

None.

Recommendation

The City should develop and implement policies and procedures to ensure that timely monitoring of subrecipients is performed.

Management Response

The City concurs. Monitoring procedures are in place and management has strengthened the review process to ensure timely monitoring of subrecipients is performed. URFA and Habitat are the City's only HOME subrecipients and both were monitored in 2014 during the contract period.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Finding 2013-006

Special Tests and Provisions

Federal Agency: U.S. Department of Housing and Urban Development
Program: Lower Income Housing Assistance Program
CFDA #: 14.856 and 14.249
Award #: GA-06-5269-01, GA-06-5269-05, GA-06-5269-06
Award year: 2012 and 2013

Criteria

Under 24 CFR Sections 5.603, 880.610, 881.601, 882.510, 882,808(k), 883.701, 884.220, 886.126 and 886.326, the owner must establish or ensure tenant utility allowances based on utility consumption and rate data for various sized units and structure types and make an annual review of tenant utility allowances to determine their reasonableness.

Condition

During our testing, there was no evidence of tenant utility analysis or an annual review of tenant utility allowances to support the current utility allowance that is being charged to each tenant's rent.

Cause and Effect

The City lacks a systematic process to ensure that a review of tenant utility usage is performed. As a result, the City lacked support for current utility allowances being charged to tenants.

Questioned Cost

None.

Recommendation

The City should establish procedures around the review of current utility usage by tenant to obtain a foundation for support for current allowances being charged to tenants.

Management's Response

The City concurs. The City of Atlanta Office of Housing has implemented a process that would establish a utility allowance schedule for all utilities and other services used to determine the family's monthly housing assistance payment, and the family share on an annual basis. The City of Atlanta will use this information to ensure that the costs being charged to the tenants are reasonable.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Finding 2013-007

Eligibility

Federal Agency:	U.S. Department of Housing and Urban Development
Program:	Lower Income Housing Assistance Program
CFDA #:	14.856 and 14.249
Award #:	GA-06-5269-01, GA-06-5269-05, GA-06-5269-06
Award year:	2012 and 2013

Criteria

Under 24 CFR Section 882.514, when vacancies occur, the owner will select participants from its waiting list in accordance with the admission policies in its administrative plan and maintain documentation which shows that, at the time of admission, the family actually met the preference criteria that determined the family's place on the waiting list.

Condition

During our review, we noted the City did not maintain a waiting list during the year.

Cause and Effect

Management lacks a systemic process to ensure a waiting list was maintained and that vacancies were filled from that listing.

Questioned Cost

None.

Recommendation

The City should develop and implement policies and procedures to ensure that a current waiting list is maintained and as vacancies arise, they are filled from the waiting list.

Management's Response

The City concurs. The City of Atlanta Office of Housing has implemented a process to ensure that a current waiting list is maintained. As vacancies occur, they will be filled from the waiting list.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Finding 2013-008

Subrecipient Monitoring

Federal Agency: U.S. Department of Energy
Program: ARRA-Energy Efficiency Block Grant
CFDA #: 81.128
Award #: DE-EE0000801, DE-EE0003575
Award year: 2007-2011

Criteria

Under 2 CFR Section 176.50(c), all subrecipients receiving ARRA funded awards are required to register in the Central Contractor Registration (CCR).

Condition

During a review of the total population of 2 subrecipients, we noted the subrecipients had not registered in the CCR.

Cause and Effect

Management lacks a systemic process to ensure subrecipients are properly monitored during the contract period to ensure they are in compliance with all federal requirements.

Questioned Cost

None.

Recommendation

The City should develop and implement policies and procedures to ensure compliance with all requirements associated with ARRA funding.

Management's Response

The City concurs with this finding. We acknowledge the subrecipients not having a CCR registration at closeout. One subrecipient has since obtained a CCR registration and the request has been made to the other.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Finding 2013-009

Reporting

Federal Agency:	U.S. Department of Transportation
Program:	Airport Improvement
CFDA #:	20.106
Award #:	3-13-0008-67
Award year:	2005

Criteria

Reports should be complete and accurate upon submission.

Condition

The City incorrectly reported a disbursement amount on the January 2013 grant performance report of \$3,453,608, which does not agree to actual disbursements of \$204,715.

Cause and Effect

The City lacks a systematic process to ensure reports are reviewed for accuracy. As a result, reports were submitted that did not properly reflect actual expenditures.

Questioned Cost

There are no questioned costs associated with the finding as it relates to incorrect reporting.

Recommendation

The City should strengthen procedures around obtaining supporting documentation and reviewing the accuracy of the information reported.

Management's Response

The City concurs the amount of the \$3,453,608 was reported on two separate grant performance reports. The second reporting was in error. However, funds were not drawn twice. Processes and procedures have been implemented to closely review reports to avoid instances of duplicate reporting in the future.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Finding 2013-010

Subrecipient Monitoring

Federal Agency:	U.S. Department of Housing and Urban Development
Program:	Community Development Block Grant (CDBG) ARRA-Community Development Block Grant
CFDA #:	14.218
Award #:	B-12-MC-13-0002
Award year:	2012

Criteria

The City is responsible for monitoring subrecipients' use of Federal awards through subrecipient reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

During a review of 40 subrecipients, there was 1 subrecipient for which the City had not performed any monitoring during the contract period. There were a total of 60 subrecipients associated with this federal program during 2013.

Cause and Effect

Management lacks a systemic process to ensure subrecipients are properly monitored during the contract period.

Questioned Cost

None.

Recommendation

The City should develop and implement policies and procedures to ensure that timely monitoring of subrecipients is performed.

Management's Response

The City concurs. Monitoring procedures are in place and management has strengthened the review process to ensure timely monitoring of subrecipients is performed.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Finding 2013-011

Allowable Costs

Federal Agency:	U.S. Department of Housing and Urban Development
Program:	Home Investment Partnership (HOME)
CFDA #:	14.239
Award #:	M-08-MC-13-0200
Award year:	2008

Criteria

To be allowable costs under Federal awards, costs must be allocable to Federal awards under the provisions of Circular A-87. Further, the City requires time allocation sheets to be submitted each pay period for all employees of the HOME program to determine time charged to each program in accordance with the City's Ordinance which outlines the budget for each program year.

Condition

During a review of 40 pay periods, we noted 8 pay periods for one individual where the allocation of funding from a certain HOME program-year budget did not agree to the allocation per the City's approved Ordinance for that program year. While the total administrative costs charged to the program during fiscal year 2013 did not exceed the overall administrative funding available for the program year, the City's established internal controls did not detect the allocation inconsistency with the governing Ordinance.

Cause and Effect

Management lacks a systemic process to ensure proper payroll allocations in accordance with the program year budget as approved through the City ordinance. As a result, an employee's salary was incorrectly allocated to the program year.

Questioned Cost

None.

Recommendation

The City should develop and implement policies and procedures to ensure accurate and timely review of employees' payroll allocations to ensure they are in accordance with the City's appropriate ordinance for the program year.

Management Response

The City concurs an individual who worked on the HOME program was overpaid a salary amount as established by the city ordinance. However, the budget for the grant award did not establish such a restrictive salary. Therefore, the salary amount paid was in accordance with the grant for a staff member

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

working on the HOME program. Going forward a review will be conducted to ensure salaries are properly charged according to the legislation.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Finding 2013-012

Subrecipient Monitoring

Federal Agency: U.S. Department of Housing and Urban Development
Program: Housing Opportunities for Persons with Aids (HOPWA)
CFDA #: 14.241
Award #: GA05H03-F025, GA05H04-F025, GA05H10-F025
GA05H11-F025, GA05H12-F025
Award year: 2003, 2004, and 2010-2012

Criteria

The City is responsible for monitoring subrecipients' use of Federal awards through subrecipient reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

During a review of the total population of 20 subrecipients, we noted there was no documentation of management review or approval of monitoring reports.

Cause and Effect

Management lacks a systemic process to ensure management review of monitoring reports is documented.

Questioned Cost

None.

Recommendation

The City should develop and implement policies and procedures to ensure that documentation of management review of monitoring reports is evidenced in the subrecipients' file.

Management's Response

The City concurs with the need to review monitoring reports. The implementing department monitored all HOPWA contracts within the contract period. However, due to change in management, the HOPWA monitoring reports were not reviewed by management as required. The Office of Human Services appointed an interim director who reviewed the reports with the agencies prior to signing. The Office has hired a permanent full-time director who has developed policies and procedures that will strengthen internal controls over all assigned contracts.

CITY OF ATLANTA, GEORGIA
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Finding 2013-013

Allowable Costs

Federal Agency:	U.S. Department of Housing and Urban Development
Program:	Lower Income Housing Assistance Program
CFDA #:	14.249
Award #:	GA-06-5269-06
Award year:	2012

Criteria

Under 2 CFR Section 225 Appendix B, charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official of the governmental unit.

Condition

During our review of 40 time allocation sheets, we noted 6 time allocation sheets which were approved by a supervisor, however, the information reported for hours worked was not correct. The amounts charged to the program were collect as the payroll was based on actual time recorded in the City's time-keeping system.

Cause and Effect

The City did not implement a systematic internal control process to ensure timesheets are properly reviewed for accuracy. As a result, time allocation sheets were approved even though the hours did not agree to actual time worked.

Questioned Cost

There were no questioned costs associated with the finding.

Recommendation

We recommend that the City strengthen internal controls around the management review of time allocation sheets to ensure that employees submit timesheets that agree with actual hours worked.

Management Response

The City concurs. The City of Atlanta Office of Housing has implemented a process that requires review of timesheets. The time allocation sheet is attached to the timesheet and will be reviewed at the time of approval.



CITY OF ATLANTA, GEORGIA

Single Audit

June 30, 2014

(With Independent Auditors' Report Thereon)

CITY OF ATLANTA, GEORGIA

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KPMG LLP
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**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and
Members of City Council
City of Atlanta, Georgia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Atlanta, Georgia (the City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 16, 2014, which contained an emphasis of matter paragraph related to the City's adoption of Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25. Other auditors audited the financial statements of the Atlanta-Fulton County Recreation Authority, Atlanta Development Authority, and Atlanta Housing Opportunity, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001 through 2014-003 to be material weaknesses.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-004 through 2014-008 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Atlanta, Georgia
December 16, 2014

CITY OF ATLANTA, GEORGIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

<u>Grantor/program title</u>	<u>CFDA no.</u>	<u>Pass-through or grant no.</u>	<u>Expenditures</u>
U.S. Department of Homeland Security:			
Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS02-12-H-SLR004	\$ 1,056,615*
SAFER -Staffing for Adequate Fire and Emergency Response	97.083	EMW-2010-FH-0118	542,156
State Homeland Security Program	97.073	2010-SS-T0-0034	19,983
State Homeland Security Program	97.073	EMW-2011-SS-00081-S01	19,987
Total CFDA No. 97.073			<u>39,970</u>
National Explosives Detection Canine Team Program	97.072	DHS-TSA-08-072-001	1,204,033
Homeland Security Grant Programs:			
TSA Checked Baggage screening project	97.067	HSTS04-12-H-CT1036	1,940,506*
TSA Checked Baggage Recap Screening Design Services Project	97.067	HSTS04-13-H-CT1043	1,088,533*
Total CFDA No. 97.067			<u>3,029,039</u>
Assistance to Firefighters Grant	97.044	EMW-2011-FO-09882	170,761
Non-Profit Security Program – SWAT 2010	97.008	2010-SS-T0-0034	452,626
Non-Profit Security Program – SWAT 2011	97.008	2011-SS-T0-0081	39,635
Total CFDA No. 97.008			<u>492,261</u>
Total U.S. Department of Homeland Security			<u>6,534,835</u>
Executive Office of the President:			
Passed through the Office of National Drug Control Policy:			
2011 High Intensity Drug Trafficking Area	95.001	G11GA0003A	655,882
2012 High Intensity Drug Trafficking Area	95.001	G12GA0003A	2,137,142
2013 High Intensity Drug Trafficking Area	95.001	G13GA0003A	3,407,771
Total Executive Office of the President			<u>6,200,795</u>
Corporation for National and Community Service:			
Passed-through Youthbuild USA:			
Youthbuild PSE	94.006	N/A	20,675
Youthbuild USA – AmeriCorps	94.006	13-NDHMA-0010006	21,474
Youthbuild USA – AmeriCorps	94.006	10-NDHMA-0030016	62,749
Total Corporation for National and Community Service			<u>104,898</u>
U.S. Department of Health and Human Services:			
Passed through Department of Behavioral Health and Developmental Disabilities:			
Block Grant for Community Mental Health Services	93.958	441-93-1433ABW	21,646
Block Grant for Community Mental Health Services	93.958	441-93-1333ACP	1,687
Total U.S. Department of Health and Human Services			<u>23,333</u>
U.S. Department of Energy:			
ARRA-Energy Efficiency and Conservation Block Grant	81.128	DE-EE0000801	138,256
ARRA-Energy Efficiency and Conservation Block Grant	81.128	DE-EE0003575	24,672
Total U.S. Department of Energy			<u>162,928</u>
U.S. Environmental Protection Agency:			
ARRA – Brownfield’s Assessment and Cleanup Cooperative Agreement	66.818	BF-95461210-0	71,264
National Endowment for the Arts:			
Promotion of the Arts – Grants to Organizations and Individuals	45.024	13-6002-7022	36,535
U.S. Department of Agriculture:			
Passed-through Georgia Department of Early Care and Learning:			
Hot Meals Program	10.558	2513	700,967
2013 Summer Food Service Program	10.559	8076	573,443
Total U.S. Department of Agriculture			<u>1,274,410</u>
U.S. Department of Housing and Urban Development:			
Lower Income Housing Assistance -- Section 8 Moderate Rehabilitation	14.856	GA-06-5269-01	337,674
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	GA-06-5269-05	295,814
Section 8 Moderate Rehabilitation Single Room Occupancy	14.249	GA-06-5269-06	488,420
Total CFDA No. 14.249			<u>784,234</u>
Total Lower Income Housing Cluster			<u>1,121,908</u>
Community Development Block Grant (CDBG) Cluster:			
CDBG – 91	14.218	B05-MC-13-002	11,983*
CDBG – 96	14.218	B07-MC-13-002	62,278*
CDBG – 97	14.218	B08-MC-13-002	11,103*
CDBG – 98	14.218	B09-MC-13-002	101,731*
CDBG – 99	14.218	B10-MC-13-002	75,995*
CDBG – 00	14.218	B11-MC-13-002	991,599*

CITY OF ATLANTA, GEORGIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Grantor/program title	CFDA no.	Pass-through or grant no.	Expenditures
CDBG - 01	14.218	B12-MC-13-002	5 2,514,736*
CDBG - 02	14.218	B13-MC-13-002	3,737,095*
CDBG - 03	14.218	B14-MC-13-002	353,237*
CDBG - 04	14.218	B-08-MN-13-0001	619,366*
Neighborhood Stabilization Program	14.218	B-11-MN-13-0001	1,583,939*
Passed through Georgia Department of Community Affairs: Neighborhood Stabilization Program	14.218	09DR1-X-060-2-5189	26,017*
Total CFDA No. 14.218			<u>10,089,079</u>
Emergency Solutions Grant Program (ESGP):			
ESGP-2010	14.231	E-10-MC-13-0002	47,367*
ESGP-2012	14.231	E-12-MC-13-0002	40,421*
ESGP-2013	14.231	E-13-MC-13-0002	246,196*
Total CFDA No. 14.231			<u>333,984</u>
HOME Investment Partnership:			
HOME-2008	14.239	M-08-MC-13-0200	123,797*
HOME-2009	14.239	M-09-MC-13-0200	41,769*
HOME-2010	14.239	M-10-MC-13-0200	447,459*
HOME-2011	14.239	M-11-MC-13-0200	693,153*
HOME-2012	14.239	M-12-MC-13-0200	618,754*
HOME-2013	14.239	M-13-MC-13-0200	37,838*
Total CFDA No. 14.239			<u>1,962,770</u>
Housing Opportunities for Persons with Aids (HOPWA):			
HOPWA 2000	14.241	GA05H00-F025	8,875*
HOPWA 2002	14.241	GA05H02-F025	71,986*
HOPWA 2003	14.241	GA05H03-F025	213,665*
HOPWA 2004	14.241	GA05H04-F025	287,505*
HOPWA 2010	14.241	GA05H10-F025	302,438*
HOPWA 2011	14.241	GA05H11-F025	1,571,766*
HOPWA 2012	14.241	GA05H12-F025	3,842,482*
HOPWA 2013	14.241	GA05H13-F025	2,409,097*
Total CFDA No. 14.241			<u>8,707,814</u>
Lead-Based Paint Hazard Control in Privately Owned Homes	14.900	GALHB0463-10	842,739
Passed through Georgia Department of Community Affairs:			
AHA Catalyst 2011	14.881	2011-00-79001	101,986
AHA Catalyst 2012	14.881	2012-00-79001	184,514
Total CFDA No. 14.881			<u>286,500</u>
Total U.S. Department of Housing and Urban Development			<u>23,344,794</u>
U.S. Department of Justice:			
Equitable Sharing for State and Local Law Enforcement Agencies	16.922	N/A	2,843,098*
Passed through Youthbuild USA:			
Juvenile Mentoring	16.726	2009-JU-FX-0004	1,892
Passed through Governor's Office for Children and Families:			
Juvenile Accountability Block Grant	16.523	JB-10FM-0001	1,220
Total U.S. Department of Justice			<u>2,846,210</u>
U.S. Department of Labor:			
Workforce Investment Act (WIA) Cluster:			
Passed-through Georgia Department of Labor:			
ARRA - WIA Adult 2010	17.258	32-09-11-03-003	65,712*
WIA Adult PY2012	17.258	11-12-12-03-003	75,066*
Passed-through Governor's Office of Community Development:			
WIA Adult FY2013	17.258	11-12-13-03-003	636,732*
Total CFDA No. 17.258			<u>777,510</u>
Passed-through Georgia Department of Labor:			
WIA Youth PY2011	17.259	15-11-11-03-003	7,929*
Passed through Governor's Office of Community Development:			
WIA Youth PY2012	17.259	15-12-11-03-003	1,188,828*
WIA Youth PY2013	17.259	15-13-11-03-003	527,297*
Total CFDA No. 17.259			<u>1,724,054</u>
Passed-through Georgia Department of Labor:			
Passed-through Governor's Office of Community Development:			
ARRA - WIA-Dislocated Worker PY12	17.260	31-12-12-03-003	103,584*

CITY OF ATLANTA, GEORGIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Grantor/program title	CFDA no.	Pass-through or grant no.	Expenditures
Passed-through Georgia Department of Labor:			
Passed-through Governor's Office of Community Development:			
WIA-Dislocated Worker FY12	17.278	31-12-11-03-003	\$ 1,888*
WIA-Dislocated Worker FY13	17.278	31-13-13-03-003	12,092*
WIA-Dislocated Worker FY13	17.278	31-12-13-03-003	287,771*
Total CFDA No. 17.278			<u>301,751</u>
Total WIA Cluster			<u>2,906,899</u>
US DOL ETA YouthBuild 2012	17.274	YB-23462-12-60-A-13	471,345
Passed-through Accelerating Connections to Employment:			
ACE Grant 2012-2013	17.283	2013-151	401,436
Total U.S. Department of Labor			<u>3,779,680</u>
U.S. Department of Transportation:			
Passed-through Governor's Office of Highway Safety:			
Highway Planning and Construction	20.205	PI # 0010854 & 00010646	1,022,082
Highway Planning and Construction	20.205	PI # 0010322 & 0010323	119,273
Highway Planning and Construction	20.205	PI # 762527, 0000184, 0008614 & 0004493	4,475,577
Total			<u>5,616,932</u>
Passed-through Georgia Department of Transportation:			
Highway Planning and Construction	20.205	PI # 0007072	77,235
Highway Planning and Construction	20.205	PI # 0006572	500,000
Highway Planning and Construction	20.205	PI # 0004463	75,632
Highway Planning and Construction	20.205	PI # 0006571	275,263
Highway Planning and Construction	20.205	PI # 0006978	300,776
Total			<u>1,228,906</u>
Total CFDA No. 20.205			<u>6,845,838</u>
Passed-through Governor's Office of Highway Safety:			
State and Community Highway Safety Child Car Safety	20.600	GA-2012-732-00393	7,998
State and Community Highway Safety Child Car Safety	20.600	GA-2013-732-00374	13,289
State and Community Highway Safety Child Car Safety	20.600	GA-2014-732-00313	121,667
State and Community Highway Safety 2012-2013 HEAT Grant	20.600	GA-2012-195-00385	50,082
State and Community Highway Safety 2013-2014 HEAT Grant	20.600	GA-2012-195-00305	8,118
Total CFDA No. 20.600			<u>201,154</u>
Airport Improvement Programs (AIP):			
AIP 96 – Noise Mitigation	20.106	3-13-0008-96	1,238,598*
AIP 106 – Vale – Air Vehicle	20.106	3-13-0008-106	265,950*
AIP 109 – Runway 8L/26R Pavement Replacement	20.106	3-13-0008-109	3,558,167*
AIP 105 – Noise Mitigation Residential & Public Buildings	20.106	3-13-0008-105	47,562*
Total CFDA No. 20.106			<u>5,110,277</u>
Total U.S. Department of Transportation			<u>12,157,269</u>
Total federal expenditures			<u>\$ 56,536,951</u>

* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(1) Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The basic financial statements of City of Atlanta, Georgia (the City), as of and for the year ended June 30, 2014, include the operations of the Atlanta-Fulton County Recreation Authority, Atlanta Development Authority and Atlanta Housing Opportunity, Inc. (the component units). The accompanying schedule of expenditures of federal awards does not include federal financial assistance received directly by the component units, because they engaged other auditors to perform an audit in accordance with the Single Audit Act. Accordingly, the accompanying schedule of expenditures of federal awards presents the federal financial assistance programs administered by the City, and does not reflect the federal financial assistance programs administered by the component units.

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting. Under the cash basis of accounting, expenditures are recognized when paid. In instances where the grant agreement requires the City to match grant awards with City funds, such matching funds are excluded from the accompanying schedule of expenditures of federal awards.

Federal grant programs that are administered through State agencies (pass-through awards) have been included in the accompanying schedule of expenditures of federal awards. These programs are operated according to federal regulations promulgated by the originating federal agency providing the funding.

(2) Subrecipients

Federal expenditures provided to subrecipients by the City during the year ended June 30, 2014 are as follows:

<u>Federal program</u>	<u>CFDA number</u>	<u>Amount</u>
Community Development Block Grant Cluster	14.218	\$ 2,679,434
Emergency Solutions Grant Program	14.231	320,056
Housing Opportunities for Persons with Aids (HOPWA)	14.241	8,381,078
HOME Investment Partnership Program	14.239	1,294,985
Total		\$ <u>12,675,553</u>

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2014

(3) Loans Outstanding

The City uses funds available under the Community Development Block Grant Cluster and HOME Investment Partnership Grant to provide low-interest loans to eligible persons. Principal payments received are used to make additional loans as part of the revolving loan fund. Disbursements of such loans are included as expenditures in the accompanying schedule of expenditures of federal awards in the year of disbursement. The outstanding balance of these loans at June 30, 2014 is as follows:

<u>Federal program</u>	<u>CFDA number</u>	<u>Amount outstanding</u>
Home Investment Partnership Grant	14.239	\$ 14,907,622
Community Development Block Grant Cluster	14.218	<u>15,873,371</u>
		<u>\$ 30,780,993</u>



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

Honorable Mayor and
Members of City Council
City of Atlanta, Georgia:

Report on Compliance for Each Major Federal Program

We have audited the City of Atlanta's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2014. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's financial statements include the operations of the Atlanta Development Authority, which expended approximately \$4,760,000 in federal awards, which is not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2014. Our audit, described below, did not include the operations of the Atlanta Development Authority because they engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions on compliance. However, our audit does not provide a legal determination of the City's compliance.



Basis for Qualified Opinion on Workforce Investment Act Cluster and ARRA – Workforce Investment Act Cluster

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA numbers 17.258, 17.259, 17.260 and 17.278 Workforce Investment Act cluster and ARRA – Workforce Investment Act cluster as described in findings 2014-010 for Procurement and Suspension and Debarment and 2014-011 for Reporting. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on Workforce Investment Act Cluster and ARRA – Workforce Investment Act Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Workforce Investment Act cluster and the ARRA – Workforce Investment Act cluster for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-009. Our opinion on each major federal program is not modified with respect to this matter.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.



A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-009 through 2014-011 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-012 and 2014-013 to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2014, and the related notes to the financial statements. We issued our report thereon dated December 16, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Atlanta, Georgia
March 25, 2015

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unmodified**
- (b) Material weaknesses in internal control were disclosed by the audit of the financial statements: **yes – See Findings 2014-001 through 2014-003**
Significant deficiencies: **yes – See Findings 2014-004 through 2014-008**
- (c) Noncompliance which is material to the financial statements: **no**
- (d) Material weaknesses in internal control over major federal programs: **yes – See Findings 2014-009 through 2014-011**
Significant deficiencies: **yes – See Findings 2014-012 and 2014-013**
- (e) The type of report issued on compliance for major federal programs: **Qualified (CFDA #'s 17.258, 17.259, 17.260, 17.278); Unmodified (CFDA #'s 97.090, 97.067, 20.106, 14.239, 14.218, 14.241, 14.231, 16.922)**
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **yes – See Findings 2014-009 through 2014-013**
- (g) Major Federal Programs:
 - Law Enforcement Officer Reimbursement**
 - Agreement Program** **CFDA # 97.090**
 - Homeland Security Grant Program** **CFDA # 97.067**
 - Airport Improvement Program** **CFDA # 20.106**
 - HOME Investment Partnership** **CFDA # 14.239**
 - Community Development Block Grant Cluster** **CFDA # 14.218**
 - Housing Opportunities for Persons with Aids** **CFDA # 14.241**
 - Emergency Solutions Grant Program** **CFDA # 14.231**
 - Equitable Sharing for State and Local Law Enforcement Agencies** **CFDA # 16.922**
 - Workforce Investment Act Cluster** **CFDA # 17.258, 17.259, 17.260, 17.278**
 - ARRA – Workforce Investment Act Cluster** **CFDA # 17.258 and 17.260**
- (h) Dollar threshold to distinguish between Type A and Type B federal programs: **\$2,619,538**
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **no**

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2014

(2) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*

Finding 2014-001

Monitoring of Capital Assets

Criteria

The City should have processes in place related to construction in progress (CIP) and have detailed records to clearly identified federal equipment.

Condition, Cause, and Effect

The City has approximately \$11.8 billion in capital assets as of June 30, 2014. We noted deficiencies in the City's record keeping and monitoring of those assets which are summarized below:

- At June 30, 2014, the City had approximately \$119 million in construction in progress (CIP). During the year, the City had recorded \$48.1 million to expense various items in CIP in an effort to clear out older balances for projects which were no longer in process. Upon our review, it was determined that the items had been expensed prior to completion of a comprehensive review to determine whether certain items could be capitalized. As a result, management reversed the \$48.1 million expense and performed further analysis to determine the appropriate CIP balance.
- As a result of that further analysis, it was determined that approximately \$20.8 million of balances recorded in CIP should have been previously capitalized into a fixed asset category. For those assets, depreciation of approximately \$4.7 million should have been recorded as of June 30, 2014. Management made an adjusting entry to reflect the correct balances.
- During our physical observation of capital assets, we noted several items that could not be linked back to the capital asset detail listing due to lack of sufficient detailed identifying information in the fixed assets records. For example, in certain cases, the vehicle identifying number (VIN) was not listed in the fixed asset detailed ledger, making it difficult to link the physical asset to the specific item in the detail.
- The City has not conducted a complete physical inventory of capital assets since 2007. Certain departments (primarily those holding assets purchased through federally funded grants) have performed inventory verification procedures of those assets, but a complete verification City-wide has not been performed in several years.

Recommendation

We recommend that the City strengthen policies and procedures around accounting for and monitoring capital assets, including periodic reconciliation and verification of movement of assets from CIP to depreciable asset categories, ongoing monitoring of amounts classified as CIP, and reconciliation of detailed capital assets ledgers to the general ledger. Further, a comprehensive physical inventory should be completed and updated on a periodic basis.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Management's Response

The City agrees with the need for accurate accounting and monitoring of capital assets along with strong policies and procedures applicable City-wide. As such, there is regular central review of capital assets and current CIP activity including movement to depreciable asset categories. The clean-up and reconciliation of old CIP balances has been an ongoing, long term project that was started in 2009 with the Enterprise funds. Although there has been much progress in reclassifying old Governmental fund CIP balances to the proper depreciable asset categories, the project was not complete at fiscal 2014 year-end. It is anticipated the governmental funds CIP reconciliation will be completed by the end of fiscal year 2015. Moving forward, the Department of Finance will ensure effective and regular communication, to departments having CIP balances, of the need for timely notification of capital project completion so that balances can be placed in service.

A request for proposal to have an inventory of moveable equipment is being reviewed and is anticipated to be released no later than the second quarter of calendar year 2015. A part of the inventory requirement will be to ensure all assets have the appropriate identification detail recorded in the fixed assets module.

Police Officers' and Firefighters' Pension Plans

Finding 2014-002

Monitoring of Service Organizations

Criteria

The City should have processes in place to monitor the service organizations to ensure the completeness and accuracy of the pension plan reporting.

Condition, Cause, and Effect

The City of Atlanta (City) uses outside service organizations to perform various functions for the City of Atlanta, Georgia Police Officers' and Firefighters' Pension Plans (the Plans) including safekeeping of assets, benefits claim processing, and record keeping. Specifically, the Plans' Third-Party Administrator (TPA) performs the calculation of the monthly pension benefit amount for each employee upon retirement, administers the process for disability and beneficiary benefits, processes benefit payments, and maintains retired participant records. Although the TPAs are charged with providing these services, Plan management remains responsible for ensuring that the internal control environment at the TPAs is sufficient to achieve the completeness and accuracy of plan administration and financial reporting.

During the audit, we noted that the Plans' management had not obtained a service organization audit report for its TPA, Zenith American Solutions, and the most recent service organization audit report did not cover the appropriate reporting periods for the Plans' fiscal year under audit. Additionally, Plan management did not perform any procedures to assess whether the TPA had applicable controls in place during the fiscal year and whether these controls were operating effectively. The lack of a current service organization audit report creates potential exposure to the Plans of control breakdowns which could impact pension reporting and the completeness and accuracy of financial information.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Recommendation

We recommend that Plan management implement procedures that establish requirements for the receipt and documented review of service organization audit reports. These requirements should address the timing of the receipt of the reports, the period covered relative to the City's and Plans' fiscal year reporting, user control considerations, and Plan management's overall monitoring process for TPAs. Plan management should review all service organization reports for control exceptions that impact the Plan and ensure that compensating user controls are in place to mitigate the risk of error or material misstatement to the Plans' financial statements.

Management's Response

Plan management agrees the Third Party Administrator (TPA) needs to provide a service organization audit report to assess internal controls. The TPA has been asked to make arrangements for the completion of a service organization audit report to be conducted through March 31, 2015. The report is expected to be provided in July 2015.

Finding 2014-003

Accuracy of Active Participant Census Data

Criteria

The valuation of the City's Pension is a crucial component of financial reporting. The City should ensure that data provided to actuaries for this valuation is complete and accurate.

Condition, Cause, and Effect

On an annual basis, an actuarial valuation is performed to determine the City's total pension liability, or actuarial present value of accumulated plan benefits, and minimum required contribution related to the Plans. The Plans' Actuary uses census data provided by the City via the TPA to perform the valuation using actuarial assumptions. The active participant census data is a particularly important input used in the valuation as it impacts a significant portion of the total liability, which involves the most estimation uncertainty.

For a sample of 25 active participants for each plan, we noted the payroll amounts per the census data, used by the Plans' Actuary for the July 1, 2013 valuation, did not agree to the pensionable pay amounts per the City's payroll submissions for all participants tested. It was determined that the census data payroll amounts provided to the Actuary by the TPA did not include the correct pensionable pay pursuant to the Plan provisions. Additionally, Plan management did not perform any procedures to ensure the accuracy of the census data provided to the Actuary. Failure to ensure the accuracy of the census data provided to the Actuary could lead to inaccurate valuation of the total pension liability and related disclosures in the Plans' financial statements.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Recommendation

We recommend that Plan management perform procedures to ensure the completeness and accuracy of the census data provided to the Actuary for the valuation. Plan management should ensure the TPA provides complete and accurate census data in accordance with the Plan provisions, including amendments. We also recommend that Plan management consider reconciling the census data provided to the Plans' Actuary by the TPA to their records prior to the performance of the valuation by the Plans' Actuary.

Management's Response

Plan management agrees with the importance of providing complete and accurate census data to the Actuary. Plan management is in the process of establishing procedures where the payroll data will be reviewed prior to being provided to the Actuary. In addition, Plan management is establishing a procedure to review the payroll data of the active participants prior to the Actuary issuing the final valuation report.

Central Government

Finding 2014-004

Accuracy of Accrual for Accounts Payable

Criteria

The process of reviewing invoices received after year end is a crucial component of the Comprehensive Annual Financial Report (CAFR) preparation.

Condition, Cause, and Effect

We continue to note improvement in the process of recording year end liabilities. During fiscal 2013, the City implemented a process to review vendor payments through the first week of October of the subsequent fiscal year for the accrual of period end liabilities, which has greatly improved the accuracy of recording those liabilities for financial reporting purposes. However, when we tested vendor payments after this period, we noted other expenses that should have been in the fiscal year end accrual. This resulted in under accruals at year end, although in lower volume and smaller amounts than were noted in 2013. The total amounts in error were not material to the Comprehensive Annual Financial Report (CAFR), but the underlying process needs additional revision.

Recommendation

We recommend the City extend the search period through the end of October to enhance the process to review invoices that may come in after year end but before the CAFR is completed, to determine if such amounts should be recorded as liabilities at June 30. Where feasible, additional centralization of such processes combined with enhanced education of personnel responsible for receiving and approving invoices, should help to improve controls in this area.

Management's Response

The City will continue to train and educate employees on the accrual process. The accrual review process will be extended through the month of October to determine if additional amounts should be recorded prior to the CAFR being completed.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Department of Watershed Management

Finding 2014-005

Financial Reporting

Criteria

The City should have processes in place to ensure data reflected in the Comprehensive Annual Financial Report are complete and accurate.

Condition, Cause, and Effect

The Comprehensive Annual Financial Report (CAFR) is the Department of Watershed Management's (the Department) official document which consists of management's representations concerning the finances of the Department. We noted certain matters in the Department's process of preparing the CAFR which are summarized below:

- Capital assets records are not maintained at a sufficiently detailed level for effective tracking and monitoring of the capital assets after they are added to the capital assets sub-ledger.
- Inter-jurisdiction receivables and revenue receivables are not properly reconciled based on the most recently available information before closing. The inter-jurisdiction receivable was overstated by \$1.6M at year-end while the revenue receivable was understated by \$1.7M.
- Legal reserve is not accrued based on most recent development of known cases before closing.
- The Department maintains a listing of 'on-hold' payables that is utilized as a holding account for items requiring further effort in order to determine proper processing in the general ledger. We noted that goods and services that are logged on the on-hold list are not always timely investigated and accrued.
- Construction in Process (CIP) projects that were in place prior to implementation of the current Oracle system were carried over into the new system in lump sum without sufficient detail to be matched and transferred out from the CIP balance automatically when placed into service. Also, there is a lack of subsequent review to determine whether project expenses are properly capitalized as CIP. As a result, \$7M of CIP was written off during fiscal year 2014.

Recommendation

While noticeable improvement has been noted within the Department's financial reporting process year-over-year, further opportunities for streamlining and enhancing CAFR preparation and review procedures exist. We recommend that the Department further formalize its CAFR review procedures to bring more focus to accounting treatment and classification of its more esoteric and nonroutine financial reporting items. Adding this focus to its existing financial reporting process should result in more accurate presentation of key amounts within the CAFR.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Management's Response

The Department will continue to work with the Department of Finance (DOF) to arrange communications that will enhance the reporting of information for the CAFR particularly as it relates to the more esoteric and nonroutine financial matters confronted during the reporting period. Additional steps will also be taken within the department to ensure that all known reporting issues are addressed during the fiscal period of occurrence.

General Employees' Pension Plan

Finding 2014-006

Monitoring of Service Organizations

Criteria

The City should have processes in place to monitor the service organizations to ensure the completeness and accuracy of the pension plan reporting.

Condition, Cause, and Effect

The City of Atlanta (City) uses outside service organizations to perform various functions for the City of Atlanta, Georgia General Employees' Pension Plan (the Plan) including safekeeping of assets, benefits claim processing and record keeping. Specifically, the Plan's Third-Party Administrator (TPA) performs the calculation of the monthly pension benefit amount for each employee upon retirement, administers the process for disability and beneficiary benefits, processes benefit payments, and maintains retired participant records. Although the service organizations are charged with providing these services, Plan management remains responsible for ensuring that the internal control environment at the service organization is sufficient to achieve the completeness and accuracy of plan administration and financial reporting.

During the audit, we noted that Plan management had obtained a service organization audit report for its TPA, The GEM Group. However, the audit report timeframe was not consistent with the Plan's fiscal year end. Additionally, Plan management did not perform any procedures to assess whether the TPA had applicable controls in place during the fiscal year and whether these controls were operating effectively. The lack of a current service organization audit report creates potential exposure to the Plan for control breakdowns which could impact pension reporting and the completeness and accuracy of financial information. Further, as the TPA administers the Plan, the controls at the TPA are highly important to the financial reporting process and execution of internal controls over administration of the Plan.

Benefit payments, which are calculated at the TPA, are required to be calculated in accordance with Plan provisions and represent the largest expense of the Plan. For a sample of 88 retired participants, we noted Plan management via the TPA did not adequately maintain a benefits calculation form to substantiate the accuracy of the retirement benefit payment for three participants. For one of those participants, Plan management was also unable to provide a signed pension application form. Failure to maintain adequate records for retired participants could lead to the Plan making payments in the wrong amount or to participants who are no longer eligible for benefits.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Recommendation

We recommend that Plan management implement procedures that establish requirements for the receipt and documented review of service organization audit reports. These requirements should address the timing of the receipt of the reports, the period covered relative to the City's and Plan's fiscal year reporting, user control considerations, and Plan management's overall monitoring process for third party service providers. Plan management should review all service organization reports for control exceptions that impact the Plan and ensure that compensating user controls are in place to mitigate the risk of error or material misstatement to the Plan's financial statements.

In addition, we recommend that Plan management perform periodic retired participant review procedures. Periodically, Plan management should consider analyzing its retired participant records by selecting a sample of retired participants and performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records and adjust in those situations where eligibility requirements are no longer met. We also recommend that Plan management consider reconciling retired participant records to benefit payments made to participants to ensure payments are eligible and accurate.

Management's Response

Plan management agrees the Third Party Administrator (TPA) needs to provide a service organization audit report to assess internal controls. The TPA has been asked to make arrangements for the completion of a service organization audit report to be conducted through March 31, 2015. The report is expected to be provided in July 2015.

In addition, the Pension Services Department will perform bi-annual audits on a sample of retired participant benefit payments for accuracy and participant eligibility status. Plan management will request the TPAs to provide monthly reports on all adjustments to participant beneficiary records that would have an impact on their benefit payment or eligibility status.

Finding 2014-007

Monitoring of Benefit Payments

Criteria

The City should ensure a process is in place to monitor benefit payments to ensure correct amounts are disbursed.

Condition, Cause, and Effect

During the testwork over benefit payments made during fiscal year 2014, we noted two out of 88 sample items resulted in overpayments. One of the overpayments was due to a retroactive payment adjustment that was not changed after the initial payment was made in 2008. The second overpayment resulted from a benefit payment calculation error in which the 80% cap for the benefit payment was not appropriately applied. These exceptions occurred due to improper review and monitoring of final calculations of benefits being paid on a regular basis. Although the TPA, The GEM Group, is charged with calculating and processing the benefit plans, it is Plan management's responsibility to ensure benefits are being calculated properly. Further, as described in Finding 2014-006, as the TPA administers the Plan, the controls at the

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2014

TPA are highly important to the financial reporting process and failure to monitor such controls increases the risk for potential incorrect benefit payments.

Recommendation

We recommend that Plan management perform periodic retired participant review procedures. Periodically, Plan management should consider analyzing its retired participant benefit payments and records by selecting a sample of retired participants and reconciling retired participant records to benefit payments made to participants to ensure payments are eligible and accurate. We also recommend Plan management consider performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records.

Management's Response

Plan management agrees with the importance of monitoring the internal control processes of third party service providers (TPAs). The Pension Services Department will perform bi-annual audits on a sample of retired participant benefit payments for accuracy and participant eligibility status. Plan management will request the TPAs to provide monthly reports on all adjustments to participant beneficiary records that would have an impact on their benefit payment or eligibility status.

Finding 2014-008

Eligibility of Plan Participants

Criteria

The process of reviewing eligibility of plan participants is critical to the valuation of the City's pension and ensuring compliance with the pension plan document.

Condition, Cause, and Effect

During the testwork over participant eligibility, we noted one participant out of a sample of 40 who was improperly included in the defined benefit plan when they should have been included in the defined contribution plan based on their pay grade. Failure to appropriately include or exclude employees based on the Plan's provisions represents a failure to operate the Plan in accordance with the Plan document and could present an issue for Plan tax qualification status.

Recommendation

We recommend that Plan management perform procedures to determine participant eligibility is verified to ensure proper inclusion for Plan benefits. In addition, we recommend Plan management perform periodic active participant review procedures. Periodically, management should consider analyzing its participant records by selecting a sample of active participants and performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records and adjust in those situations where eligibility requirements are no longer met.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Management's Response

Pension Services will continue to conduct quarterly reviews on new employees' pension assignments completed by DHR HRIS/Records Management and Payroll. Employees and the Payroll Department are notified by Pension Services on changes or corrections required in employee pension assignments. DHR HRIS/Records Management is responsible for making the corrections to the employee's record and Finance/Payroll is responsible for all financial transactions relating to employee funds being placed in the correct pension plan. Errors regarding employee pension assignments primarily happen during the initial on-boarding process with the City. Typically when an employee is promoted or changes status it will not impact their pension eligibility unless it involves a retirement or change in job status to a temporary nonbenefit earning position.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2014

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2014-009

Equipment and Real Property Management

Federal Agency: U.S. Department of Justice
Program: Equitable Sharing for State and Local Law Enforcement Agencies
CFDA #: 16.922
Award #: N/A
Award year: 2012 through 2014

Criteria

Federal regulations specify that institutions maintain equipment records, perform a physical inventory of equipment at least once every two years and reconcile results to the equipment records, utilize an appropriate control system to safeguard equipment, and adequately maintain equipment.

Condition

During performance of audit procedures over federal equipment, we selected a sample of invoices with multiple equipment purchases noting the following:

- During our testing of 44 equipment purchases, 4 items had been lost in a fire, yet were not properly reported as a disposal. There was no documentation of insurance proceeds, nor was there any documented communication with the federal agency notifying them of the loss.
- We noted a full inventory of equipment has not been taken since 2007. Vehicles are regularly inventoried, but no other equipment is fully inventoried.

Cause and Effect

Management lacks a systemic process to ensure that equipment is properly disposed of and that a physical inventory is taken every 2 years as required.

Questioned Cost

None.

Recommendation

The City should enhance its policies and procedures to ensure that federal equipment inventory is properly identified upon receipt, that physical inventory counts are conducted every two years, and that property records are updated timely to reflect the proper status of all equipment.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Management Response

The City concurs with this finding in that an inventory of equipment purchased with federal funds has not been completed every two years and equipment destroyed in a fire was not reported to the federal agency. In the future, the appropriate awarding grant agency will be notified of equipment losses. The City did not receive any insurance proceeds because deductibility was not met. The Department does have a listing of all equipment purchased with grant funds. During the audit, all equipment selected was located. There are now procedures in place to record when the inventory of all equipment purchased through grant funds was conducted.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Finding 2014-010

Procurement and Suspension and Debarment

Federal Agency: U.S. Department of Labor

Program: Workforce Investment Act Cluster
ARRA – Workforce Investment Act Cluster

CFDA #: 17.258, 17.259, 17.278, 17.260

Award #: 32-09-11-03-003; 11-12-12-03-003; 11-12-13-03-003
15-11-11-03-003; 15-12-11-03-003; 15-13-11-03-003
31-12-12-03-003; 31-12-11-03-003; 31-13-13-03-003
31-12-13-03-003

Award year: 2009 and 2011 through 2013

Criteria

Under 2 CFR Section 215.46 and 215.43, recipients of federal funding must maintain contract files including rationale for the method of procurement, selection of the contract type, basis for contract selection and price. Further, procurements should provide full and open competition and include documentation to support the rationale to limit competition in those cases where competition was limited.

Condition

During our review of the total population of four contracts that exceeded \$25,000 during 2014, three contracts totaling \$1,600,092 could not be located nor could any evidence of full and open competition and supporting rationale for the procurement be located.

Cause and Effect

The City did not implement a systematic internal control process to ensure contract and procurement files are obtained for all contracts exceeding \$25,000. As a result, if a vendor receives over \$25,000 from the City, a purchase is automatically routed to management in the procurement department to authorize a payment without a contract on file.

Questioned Cost

There were no questioned costs associated with the finding.

Recommendation

We recommend that the City strengthen internal controls around the procurement process and ensuring that procurement and contract files exist for purchases that exceed \$25,000 in federal funds.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Management Response

The City concurs with this finding. In accordance with City procurement policies, AWDA will maintain determinations and other written records pertaining to the solicitation, award or performance of a contract or purchase order in a contract file maintained by the AWDA. In accordance with City procurement policies Departments are delegated the authority to interact with vendors for purchases totaling less than \$20,000 during a fiscal year. Management has taken measures to ensure that vendors are selected in accordance with federal, state and local guidelines. As a matter of procedure the agency will first utilize City-wide contracts for office supplies, equipment, furniture, technology, and drug/background screening. When City-wide contracts are not available for purchases over \$20,000 the agency will work in concert with the Department of Procurement to determine the appropriate method of source selections (special procurement, emergency procurement, competitive selection procedures for professional and consultant services).

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Finding 2014-011

Reporting

Federal Agency: U.S. Department of Labor

Program: Workforce Investment Act Cluster
ARRA – Workforce Investment Act Cluster

CFDA #: 17.258, 17.259, 17.278, 17.260

Award #: 32-09-11-03-003; 11-12-12-03-003; 11-12-13-03-003
15-11-11-03-003; 15-12-11-03-003; 15-13-11-03-003
31-12-12-03-003; 31-12-11-03-003; 31-13-13-03-003
31-12-13-03-003

Award year: 2009 and 2011 through 2013

Criteria

Under 2 CFR Section 215.51, each Federal awarding agency shall require a financial status report to be completed and submitted during a grant period. Those reports should be complete, accurate and prepared in accordance with the required accounting basis.

Condition

During our review of 40 financial status reports, expenditures on three reports did not agree to supporting documentation provided by \$124,966. Further, we noted two programs that were not reported on the June 2014 Financial Status Report, totaling \$2,678,447 in expenditures.

Cause and Effect

The City lacks a systemic process to ensure reports are reviewed for accuracy. As a result, reports were submitted that did not properly reflect actual expenditures.

Questioned Cost

There were no questioned costs associated with the finding.

Recommendation

The City should strengthen procedures around obtaining supporting documentation and reviewing the accuracy of the information reported.

Management Response

The City concurs there needs to be a closer review of the WIA reports. Procedures are being put into place where reports will be reviewed along with backup documentation prior to submission. It is anticipated this will be completed by the end of fiscal year 2015.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Finding 2014-012

Eligibility

Federal Agency: U.S. Department of Labor

Program: Workforce Investment Act Cluster
and ARRA – Workforce Investment Act Cluster

CFDA #: 17.258, 17.259, 17.278, 17.260

Award #: 32-09-11-03-003; 11-12-12-03-003; 11-12-13-03-003
15-11-11-03-003; 15-12-11-03-003; 15-13-11-03-003
31-12-12-03-003; 31-12-11-03-003; 31-13-13-03-003
31-12-13-03-003

Award year: 2009 and 2011 through 2013

Criteria

Each program should maintain records that includes all individuals receiving benefits during the period.

Condition

During our review of eligibility, we noted the database used to maintain the population of participants could not be accessed to allow for completeness testing of the population (i.e. select participant files and trace them back to the listing of participants provided). The database only allows participants to be searched by name or social security number.

Cause and Effect

Management lacks a systemic process to ensure complete populations of participants are maintained in the database. As a result, the database that stores participant information may not be complete.

Questioned Cost

There were no questioned costs associated with the finding.

Recommendation

We recommend that the City strengthen internal controls around ensuring the completeness of the population of participants in the program.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Management Response

The City concurs with this finding. The agency has defined business requirements to acquire, install and begin implementation of an effective case management software system. Management is currently working with the City of Atlanta's Department of Procurement and the Department of Information Technology to address AWDA's unique case management needs which will provide staff the ability to track the entirety of client and caseworker relationships in real time. Management is well aware that having this capability to document current, detailed customer progress, performance, workflow, and data – is vital to AWDA's ability to successfully meet state and federal guidelines, as well as AWDA's increased internal performance metrics.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2014

Finding 2014-013

Allowable Costs/Cost Principles

Federal Agency: U.S. Department of Housing and Urban Development
Program: Home Investment Partnership (HOME)
CFDA #: 14.239
Award #: M-08-MC-13-0200
Award year: 2008

Criteria

To be allowable costs under Federal awards, costs must be allocable to Federal awards under the provisions of Circular A-87. Further, the City requires time allocation sheets to be submitted each pay period for all employees of the HOME program to determine time charged to each program in accordance with the City's Ordinance which outlines the budget for each program year.

Condition

During a review of 40 pay periods, we noted 13 pay periods for one individual where the allocation of funding from a certain HOME program-year budget did not agree to the allocation per the City's approved Ordinance for that program year. While the total administrative costs charged to the program during fiscal year 2014 did not exceed the overall administrative funding available for the program year, the City's established internal controls did not detect the allocation inconsistency with the governing Ordinance.

Cause and Effect

Management lacks a systemic process to ensure proper payroll allocations in accordance with the program year budget as approved through the City Ordinance. As a result, an employee's salary was incorrectly allocated to the program year.

Questioned Cost

None.

Recommendation

The City should develop and implement policies and procedures to ensure accurate and timely review of employees' payroll allocations to ensure they are in accordance with the City's appropriate ordinance for the program year.

Management Response

The FY15 budget and personnel paper was adopted moving the position to the General Fund at 100%. The City will implement a policy to ensure that positions are funding according to legislation and will be monitored by the Financial Management Division within the Department of Planning and Community Development.



CITY OF ATLANTA, GEORGIA

Single Audit

June 30, 2015

(With Independent Auditors' Report Thereon)

CITY OF ATLANTA, GEORGIA

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KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and
Members of City Council
City of Atlanta, Georgia:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Atlanta, Georgia (the City) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 2015, which contained an emphasis of matter paragraph related to the City's adoption of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*, an amendment of GASB Statement No. 27 and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date*. Our report includes a reference to other auditors who audited the financial statements of the Atlanta-Fulton County Recreation Authority, Atlanta Development Authority, and Atlanta Housing Opportunity, Inc., as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the



deficiency described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-002 through 2015-006 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

December 18, 2015

CITY OF ATLANTA, GEORGIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

Grantor/program title	CFDA no.	Pass-through or grant no.	Expenditures
U.S. Department of Homeland Security:			
Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS02-12-H-SLR004	\$ 704,410
National Explosives Detection Canine Team Program	97.072	DHS-TSA-08-072-001	1,060,500 *
Homeland Security Grant Programs:			
TSA Checked Baggage screening project	97.067	HSTS04-12-H-CT1036	6,105,288
TSA Checked Baggage Recap Screening Design Services Project	97.067	HSTS04-13-H-CT1043	43,542
TSA Surveillance System	97.067	HSTS04-13-H-CT5725	488,665
Total CFDA No. 97.067			<u>6,637,495</u>
Assistance to Firefighters Grant	97.044	EMW-2012-FP-01106	27,979
Passed through FEMA:			
2014 Winter Storm	97.030	FEMA-4165-DR-GA	78,534
Non-Profit Security Program – 2013 SWAT #3138	97.008	2013-SS-T0-0054	49,200
Non-Profit Security Program – 2013 SWAT #3139	97.008	2013-SS-T0-0054	235,000
Non-Profit Security Program	97.008	2012-SS-T0-0063	110,000
Total CFDA No. 97.008			<u>394,200</u>
Total U.S. Department of Homeland Security			<u>8,903,118</u>
Executive Office of the President:			
Passed through the Office of National Drug Control Policy:			
2013 High Intensity Drug Trafficking Areas program	95.001	G13GA0003A	1,805,403 *
2014 High Intensity Drug Trafficking Areas program	95.001	G14GA0003A	3,557,278 *
Total Executive Office of the President			<u>5,362,681</u>
Corporation for National and Community Service:			
Passed-through Youthbuild USA:			
Youthbuild USA – AmeriCorps	94.006	13-NDHMA-0010006	31,966
Youthbuild USA – AmeriCorps	94.006	13-NDHMA-0010006	4,940
Total Corporation for National and Community Service			<u>36,906</u>
U.S. Department of Health and Human Services:			
Passed through Department of Behavioral Health and Developmental Disabilities:			
Block Grant for Community Mental Health Services	93.958	441-93-1433ABW	5,896
Block Grant for Community Mental Health Services	93.958	441-93-1333ACP	421
Total U.S. Department of Health and Human Services			<u>6,317</u>
U.S. Department of Energy:			
Energy Efficiency and Conservation Block Grant	81.128	DE-EE0006290	51,718
Energy Efficiency and Conservation Block Grant	81.128	DE-EE0006077	5,595
Total U.S. Department of Energy			<u>57,313</u>
U.S. Environmental Protection Agency:			
ARRA – Brownfield’s Assessment and Cleanup Cooperative Agreement	66.818	BF-95461210-0	23,469
Brownfield EPA BF 2013	66.818	BF-00D12413	31,468
Total U.S. Environmental Protection Agency			<u>54,937</u>
National Endowment for the Arts:			
Promotion of the Arts – Grants to Organizations and Individuals	45.024	13-6002-7022	13,466
Promotion of the Arts – Grants to Organizations and Individuals	45.024	14-6002-7045	24,975
Total National Endowment for the Arts			<u>38,441</u>
Department of the Interior National Park Service:			
Passed through Georgia Department of Natural Resources:			
Historic Preservation Fund	15.904	14-5140-0-2-303	10,500
U.S. Department of Agriculture:			
Passed-through Georgia Department of Early Care and Learning:			
Child and Adult Care Food Program – Hot Meals Program	10.558	2513	4,988 *
Child and Adult Care Food Program – Hot Meals Program	10.558	2513	508,518 *
Total CFDA No. 10.558			<u>513,506</u>
2014 Summer Food Service Program	10.559	8076	554,601
2015 Summer Food Service Program	10.559	8076	205,175
2015 Summer Food Service Program	10.559	8076	1,354
Total CFDA No. 10.559			<u>761,130</u>
Total U.S. Department of Agriculture			<u>1,274,636</u>
U.S. Department of Housing and Urban Development:			
Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	14.856	GA-06-5269-01	233,655
Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	14.856	GA-06-5269-05	149,124
Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	14.856	GA-06-5269-06	410,764
Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	14.856	GA-06-5269-01	222,793
Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	14.856	GA-06-5269-05	233,199
Lower Income Housing Assistance – Section 8 Moderate Rehabilitation	14.856	GA-06-5269-06	187,630
Total CFDA No. 14.856			<u>1,437,165</u>

CITY OF ATLANTA, GEORGIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

Grantor/program title	CFDA no.	Pass-through or grant no.	Expenditures
Passed through Atlanta Housing Authority AHA Atlanta Homeless Continuum of Care	14.267	N/A	\$ 50,000
Community Development Block Grant (CDBG) Cluster:			
CDBG – 05	14.218	B05-MC-13-002	3,081
CDBG – 07	14.218	B07-MC-13-002	2,706
CDBG – 09	14.218	B09-MC-13-002	375,145
CDBG – 10	14.218	B10-MC-13-002	110,732
CDBG – 11	14.218	B11-MC-13-002	201,583
CDBG – 12	14.218	B12-MC-13-002	429,210
CDBG – 13	14.218	B13-MC-13-002	2,040,574
CDBG – 14	14.218	B14-MC-13-002	1,836,527
CDBG – 15	14.218	B15-MC-13-002	88,473
Neighborhood Stabilization Program	14.218	B-08-MN-13-0001	210,345
Neighborhood Stabilization Program	14.218	B-11-MN-13-0001	44,974
Passed through Georgia Department of Community Affairs: Neighborhood Stabilization Program	14.218	08-NS-5054	190
Total CFDA No. 14.218			<u>5,343,540</u>
Emergency Solutions Grant Program (ESGP):			
ESGP-2012	14.231	E-12-MC-13-0002	48,790
ESGP-2013	14.231	E-13-MC-13-0002	315,525
ESGP-2014	14.231	E-14-MC-13-0002	264,712
Total CFDA No. 14.231			<u>629,027</u>
HOME Investment Partnership:			
HOME-2008	14.239	M-08-MC-13-0200	45,347 *
HOME-2009	14.239	M-09-MC-13-0200	112,486 *
HOME-2010	14.239	M-10-MC-13-0200	724,314 *
HOME-2011	14.239	M-11-MC-13-0200	178,603 *
HOME-2012	14.239	M-12-MC-13-0200	381,981 *
HOME-2013	14.239	M-13-MC-13-0200	703,542 *
HOME-2014	14.239	M-14-MC-13-0200	19,067 *
Total CFDA No. 14.239			<u>2,165,340</u>
Housing Opportunities for Persons with AIDS (HOPWA):			
HOPWA 2003	14.241	GA05H03-F025	17,106
HOPWA 2004	14.241	GA05H04-F025	86,164
HOPWA 2009	14.241	GA05H09-F025	84,816
HOPWA 2011	14.241	GA05H11-F025	234,997
HOPWA 2012	14.241	GA05H12-F025	448,516
HOPWA 2012	14.241	GA05H12-F025	862,039
HOPWA 2013	14.241	GA05H13-F025	3,645,307
HOPWA 2014	14.241	GA05H14-F025	4,648,079
Total CFDA No. 14.241			<u>10,027,024</u>
Lead-Based Paint Hazard Control in Privately Owned Homes	14.900	GALHB0589-14	14,759
Passed through Georgia Department of Community Affairs:			
AHA Catalyst 2012	14.881	2012-00-79001	832
AHA Catalyst 2013	14.881	2013-00-79001	284,883
AHA Catalyst 2014	14.881	2014-00-79001	183,387
Total CFDA No. 14.881			<u>469,102</u>
Total U.S. Department of Housing and Urban Development			<u>20,135,957</u>
U.S. Department of Justice:			
Equitable Sharing for State and Local Law Enforcement Agencies	16.922	N/A	1,127,342 *
Edward Byrne Memorial Justice Assistance Program	16.738	2011-DJ-BX-3432	387,812
Edward Byrne Memorial Justice Assistance Program	16.738	2012-DJ-BX-0819	598,574
Edward Byrne Memorial Justice Assistance Program	16.738	2013-DJ-BX-1153	324,040
Total CFDA No. 16.738			<u>1,310,426</u>
Passed through Youthbuild USA: Juvenile Mentoring	16.726	2013-JU-FX-0021	20,000
Passed through Governor's Office for Children and Families: ARRA- Community Oriented Policing Services (COPS)	16.710	2012-UL-WX-0012	1,362,259
Total U.S. Department of Justice			<u>3,820,027</u>
U.S. Department of Labor:			
Workforce Investment Act (WIA) Cluster:			
Passed-through Georgia Department of Labor: WIA Adult PY2012	17.258	11-12-12-03-003	6,466 *
Passed-through Governor's Office of Community Development: WIA Adult FY2013	17.258	11-12-13-03-003	67,245 *
Passed-through Governor's Office of Workforce Development: WIA Adult Program PY 2013	17.258	11-13-13-03-003	46,322 *
WIA Adult Reentry FY2014	17.258	55-13-14-03-003	16,514 *
WIA Adult Program FY 2014	17.258	11-13-14-03-003	1,417,851 *

CITY OF ATLANTA, GEORGIA
Schedule of Expenditures of Federal Awards
Year ended June 30, 2015

Grantor/program title	CFDA no.	Pass-through or grant no.	Expenditures
Passed-through Governor's Office of Economic Development: WIA Adult FY2015	17.258	11-14-15-03-003	\$ 940,358 *
Total CFDA No. 17.258			<u>2,494,756</u>
Passed through Governor's Office of Community Development: WIA Youth PY2012	17.259	15-12-11-03-003	168,420 *
WIA Youth PY2013	17.259	15-13-11-03-003	1,279,890 *
Passed-through Governor's Office of Workforce Development: WIA Youth PY2014	17.259	15-14-14-03-003	1,379,815 *
WIA Youth FY2015	17.259	15-15-15-03-003	20,583 *
Total CFDA No. 17.259			<u>2,848,708</u>
Passed-through Georgia Department of Labor: Passed-through Governor's Office of Community Development: WIA-Dislocated Worker PY12	17.278	31-12-12-03-003	12,211 *
WIA-Dislocated Worker PY13	17.278	31-13-13-03-003	53,142 *
WIA-Dislocated Worker FY13	17.278	31-12-13-03-003	7,999 *
Passed-through Governor's Office of Workforce Development: WIA Dislocated Workers Program FY2014	17.278	31-13-14-03-003	576,225 *
WIA Rapid Response Program FY2013	17.278	44-13-13-03-003	19,749 *
WIA Rapid Response Program FY2014	17.278	44-13-14-03-003	10,022 *
Passed-through Governor's Office of Economic Development: WIA Dislocated Workers Program FY2015	17.278	31-14-15-03-003	333,751 *
Total CFDA No. 17.278			<u>1,013,099</u>
Total WIA Cluster			<u>6,356,563</u>
US DOL ETA YouthBuild 2012	17.274	YB-23462-12-60-A-13	466,349
US DOL ETA YouthBuild 2014	17.274	YB-26202-14-60-A-13	7,856
Total CFDA No. 17.274			<u>474,205</u>
Passed-through Accelerating Connections to Employment: ACE Grant 2012-2013	17.283	2013-151	46,696
Total U.S. Department of Labor			<u>6,877,464</u>
U.S. Department of Transportation: National Infrastructure Investments – TIGER Grant	20.933	P.I. # 0009396	1,508,015 *
Passed-through Governor's Office of Highway Safety: Highway Planning and Construction	20.205	PI # 0010854 & 00010646	806,534 *
Highway Planning and Construction	20.205	PI # 0010322 & 0010323	119,783 *
Highway Planning and Construction	20.205	PI # 762527, 0000184, 0008614 & 0004493	1,546,333 *
Total			<u>2,472,650</u>
Passed-through Georgia Department of Transportation: Highway Planning and Construction	20.205	PI # 0007952	39,500 *
Highway Planning and Construction	20.205	PI # 0006573	299,224 *
Highway Planning and Construction	20.205	PI # 0009396	125,215 *
Total			<u>463,939</u>
Total CFDA No. 20.205			<u>2,936,589</u>
Passed-through Governor's Office of Highway Safety: State and Community Highway Safety Child Car Safety	20.600	GA-2014-732-00313	17,080
State and Community Highway Safety Child Car Safety	20.600	GA-2015-732-00324	135,507
State and Community Highway Safety Child Car Safety	20.600	GA-2012-195-00305	41,907
Total CFDA No. 20.600			<u>194,494</u>
Airport Improvement Programs (AIP): AIP 96 – Noise Mitigation	20.106	3-13-0008-96	2,984,543 *
AIP 109 – Runway 8L/26R Pavement Replacement	20.106	3-13-0008-109	5,571,643 *
AIP 105 -- Noise Mitigation Residential & Public Buildings	20.106	3-13-0008-105	5,167,422 *
AIP 111-Vale- Veh. Nat. Retro	20.106	3-13-0008-111	42,975 *
AIP 112 - Noise Mitigation Residential & Public Buildings	20.106	3-13-0008-112	5,672,349 *
Total CFDA No. 20.106			<u>19,438,932</u>
Total U.S. Department of Transportation			<u>24,078,030</u>
Total federal expenditures			<u>\$ 70,656,327</u>

* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards.
See independent auditors' report.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(1) Summary of Significant Accounting Policies

Basis of Presentation and Accounting

The basic financial statements of City of Atlanta, Georgia (the City), as of and for the year ended June 30, 2015, include the operations of the Atlanta-Fulton County Recreation Authority, Atlanta Development Authority and Atlanta Housing Opportunity, Inc. (the component units). The accompanying schedule of expenditures of federal awards does not include federal financial assistance received directly by the component units, because they engaged other auditors to perform an audit in accordance with the Single Audit Act. Accordingly, the accompanying schedule of expenditures of federal awards presents the federal financial assistance programs administered by the City, and does not reflect the federal financial assistance programs administered by the component units.

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting. Under the cash basis of accounting, expenditures are recognized when paid. In instances where the grant agreement requires the City to match grant awards with City funds, such matching funds are excluded from the accompanying schedule of expenditures of federal awards.

Federal grant programs that are administered through State agencies (pass-through awards) have been included in the accompanying schedule of expenditures of federal awards. These programs are operated according to federal regulations promulgated by the originating federal agency providing the funding.

(2) Subrecipients

Federal expenditures provided to subrecipients by the City during the year ended June 30, 2015 are as follows:

<u>Federal program</u>	<u>CFDA number</u>	<u>Amount outstanding</u>
Community Development Block Grant Cluster	14.218	\$ 3,119,148
Emergency Solutions Grant Program	14.231	553,041
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	9,730,653
HOME Investment Partnership Program	14.239	1,007,072
National Infrastructure Investments	20.933	1,508,015
		<u>\$ 15,917,929</u>

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

(3) Loans Outstanding

The City uses funds available under the Community Development Block Grant Cluster and HOME Investment Partnership Grant to provide low-interest loans to eligible persons. Principal payments received are used to make additional loans as part of the revolving loan fund. Disbursements of such loans are included as expenditures in the accompanying schedule of expenditures of federal awards in the year of disbursement. The outstanding balance of these loans at June 30, 2015 is as follows:

<u>Federal program</u>	<u>CFDA number</u>	<u>Amount outstanding</u>
Home Investment Partnership Grant	14.239	\$ 16,335,860
Community Development Block Grant Cluster	14.218	1,175,000
		<u>\$ 17,510,860</u>



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Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

Honorable Mayor and
Members of City Council
City of Atlanta, Georgia:

Report on Compliance for Each Major Federal Program

We have audited the City of Atlanta's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2015. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's financial statements include the operations of the Atlanta Development Authority, which expended approximately \$4,545,000 in federal awards, which is not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2015. Our audit, described below, did not include the operations of the Atlanta Development Authority because they engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.



Basis for Qualified Opinion on Equitable Sharing for State and Local Law Enforcement Agencies and High Intensity Drug Trafficking Areas Program

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA No. 16.922 Equitable Sharing for State and Local Law Enforcement Agencies as described in findings 2015-007 for Equipment and Real Property Management and 2015-008 for Allowable Costs and CFDA No. 95.001 High Intensity Drug Trafficking Areas Program as described in finding 2015-009 for Equipment and Real Property Management. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on Equitable Sharing for State and Local Law Enforcement Agencies and High Intensity Drug Trafficking Areas Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Equitable Sharing for State and Local Law Enforcement Agencies and High Intensity Drug Trafficking Areas Program for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-010 through 2015-012. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.



A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-007 through 2015-009 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-010 through 2015-015 to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 18, 2015, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

March 7, 2016

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

(1) Summary of Auditors' Results

- (a) The type of report issued on the financial statements: **Unmodified**
- (b) Material weaknesses in internal control were disclosed by the audit of the financial statements: **yes – See Finding 2015-001**
Significant deficiencies: **yes – See Findings 2015-002 through 2015-006**
- (c) Noncompliance which is material to the financial statements: **no**
- (d) Material weaknesses in internal control over major federal programs: **yes – See Findings 2015-007 and 2015-009**
Significant deficiencies: **yes – See Findings 2015-010 through 2015-015**
- (e) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: **yes – See Findings 2015-007 through 2015-015**
- (f) Major Federal Programs:

<u>Federal programs</u>	<u>Federal CFDA No.</u>	<u>Compliance opinion type</u>
National Explosives Detection Canine Team Program	97.072	Unmodified
High Intensity Drug Trafficking Areas Program	95.001	Qualified
National Infrastructure Investments	20.933	Unmodified
Highway Planning and Construction	20.205	Unmodified
Airport Improvement Program	20.106	Unmodified
HOME Investment Partnership	14.239	Unmodified
Equitable Sharing for State and Local Law Enforcement Agencies	16.922	Qualified
Workforce Investment Act Cluster	17.258, 17.259, 17.278	Unmodified
Child and Adult Care Food Program	10.558	Unmodified

- (g) Dollar threshold to distinguish between Type A and Type B federal programs: **\$2,645,016**
- (h) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **no**

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

(2) Findings Relating to the Financial Statements Reported in accordance with *Government Auditing Standards*

Police Officers' and Firefighters' Pension Plans

Finding 2015-001

Monitoring of Service Organizations

Criteria

The City should have processes in place to monitor the service organizations to ensure the completeness and accuracy of the pension plan reporting.

Condition, Cause, and Effect

The City uses outside service organizations to perform various functions for the City of Atlanta, Georgia Police Officers' and Firefighters' Pension Plans (the Plans), including safekeeping of assets, benefits claim processing, and record keeping. Specifically, the Plans' Third-Party Administrator (TPA) performs the calculation of the monthly pension benefit amount for each employee upon retirement, administers the process for disability and beneficiary benefits, processes benefit payments, and maintains retired participant records. Although the service organizations are charged with providing these services, Plan management remains responsible for ensuring that the internal control environment at the service organizations is sufficient to achieve the completeness and accuracy of plan administration and financial reporting.

During the audit, we noted that the City obtained a service organization audit report for its Third Party Administrator (TPA), The Zenith Group. However, the audit report covers only six months of the reporting period for the fiscal year under audit. The TPA failed to provide the bridge letter to ensure that there are no significant changes in controls during the six-month gap period. Additionally, the City did not perform any procedures to assess whether the TPA had applicable controls in place during the six-month gap period and whether these controls were operating effectively. The lack of a current service organization audit report creates potential exposure to the City for control breakdowns which could impact pension reporting and the completeness and accuracy of financial information.

Recommendation

We recommend that Plan management implement procedures that establish requirements for the receipt and documented review of service organization audit reports. These requirements should address the timing of the receipt of the reports, the period covered relative to the City's and Plans' fiscal year reporting, user control considerations, and Plan management's overall monitoring process for third party service providers. Plan management should review all service organization reports for control exceptions that impact the Plans and ensure that compensating user controls are in place to mitigate the risk of error or material misstatement to the Plans' financial statements.

Management's Response

The City agrees the Third Party Administrator (TPA) needs to provide a service organization audit report (SOC 1) to assess internal controls. The TPA did provide a SOC 1 for the period January thru June 2015.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

We understand the need to provide a completed SOC 1 to cover at least nine months of the Police Officers' and Firefighters' Pension Plans fiscal year. We will work with the Board and the TPA to ensure such a report is provided for fiscal year 2016.

Central Government

Finding 2015-002

Monitoring of Capital Assets

Criteria

The City should have processes in place related to the proper recording of capital assets and have detailed records to clearly identify federal equipment.

Condition, Cause, and Effect

The City has approximately \$12 billion in capital assets as of June 30, 2015. We noted deficiencies in the City's record keeping and monitoring of those assets which are summarized below:

- During our physical observation of capital assets, we noted several items that could not be traced back to the City's capital asset detail listing due to lack of sufficient detailed identifying information in the fixed assets records. For example, in certain cases, multiple items exist with the same description; however, there is no serial number to trace the physical asset to the specific item in the detail.
- The City has not conducted a complete physical inventory of capital assets since 2007. Certain departments (primarily those holding assets purchased through federally funded grants) have performed inventory verification procedures of those assets, but a complete City-wide physical verification has not been performed in several years. Further, we noted there was no formally approved comprehensive policy for periodic physical inventory counts for capital assets. Management has indicated that they are in the process of contracting with an external service provider to perform a full physical inventory.
- During our testing of capital asset additions, we noted one item that was recorded as construction in progress during fiscal 2015; however, documentation could not be located to support the addition. We also noted an addition that was not timely added to the capital assets listing.
- During our review of repairs and maintenance expenses, we noted a camera system that should have been recorded as a capital asset during fiscal 2015, but rather was expensed as repairs and maintenance.

Recommendation

We recommend that the City strengthen policies and procedures around accounting for and monitoring capital assets. The process of review of capital asset additions and repairs and maintenance should be strengthened to ensure proper documentation is available for items that are related to capital asset purchases and that items that should be capitalized are not expensed. Further, a comprehensive physical inventory should be completed and updated on a periodic basis.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Management's Response

The City Council has approved for the Department of Finance to enter into a contract to conduct an inventory of fixed assets throughout the City. The inventory process is expected to be completed in the first quarter of fiscal year 2017. A process will be put into place by March 2016 to review construction in progress, additions to fixed assets and repairs and maintenance expenditures. This will be done on a quarterly basis.

Central Government and Department of Watershed Management

Finding 2015-003

Accuracy of Accrual for Accounts Payable

Criteria

The process of reviewing invoices received after year end is a crucial component of the financial reporting process.

Condition, Cause, and Effect

We continue to note improvement in the City's process of recording year end liabilities. During fiscal 2015, the City implemented a process to review vendor payments through the end of October of the subsequent fiscal year for the accrual of year-end liabilities, which has greatly improved the accuracy of recording those liabilities for financial reporting purposes. However, when we tested the City's process for review of the accruals, we noted that the reports utilized to help identify accruals were not complete and accurate. The City also generates an "on-hold" report that is utilized as a holding account for items requiring further effort in order to determine proper processing in the general ledger; however, this report was not considered in the accrual process. This resulted in understated accruals of accounts payable at year end, although in lower volume and in smaller amounts than were noted in 2014. While the total amounts in error were not material to the Comprehensive Annual Financial Report (CAFR), the underlying process continues to need additional revision.

Recommendation

We recommend the City continue to develop relevant reports to aid in the accrual process. However, those reports should be verified for completeness and accuracy and not modified from their original form. Where feasible, additional centralization of such processes, combined with enhanced education and training of personnel responsible for receiving and approving invoices, should help to improve controls in this area and result in more accurate recording of period-end liabilities.

Management's Response

Management understands the importance of accurate recording of period-end liabilities and recognizes the systematic challenges around reporting to facilitate accurate accruals. Management agrees to increase review levels for AP accrual reports including the Invoice on Hold report. Management will also focus on additional training and education across City departments to ensure more accurate recording of period-end liabilities.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

General Employees', Police Officers' and Firefighters' Pension Plans

Finding 2015-004

Monitoring of Alternative Investments

Criteria

The monitoring of alternative investments is becoming more significant to the investment portfolios as these types of investments increase.

Condition, Cause, and Effect

As of June 30, 2015, the General Employees', Police Officers' and Firefighters' Pension Plans (the Plans) hold certain investments, which do not have readily available fair values. During our audit of alternative investments held by the Plans, we noted the following:

- Plans' management did not perform a reconciliation of the financial data provided by the Plans' investment custodian and the independent investment fund managers for the first half of fiscal year 2015.
- There was no performance of a look back analysis of the Plans' alternative investments relative to recorded fair values nor were there adequate procedures in place to review and analyze audited financial statements received for certain alternative investments which are intended to provide support for recorded fair values.

Recommendation

We recommend that Plans' management perform the following procedures in relation to alternative investments:

- Review, reconcile and consolidate the Plans' alternative investment transactions provided by the Plans' investment custodian and the third party investment managers on at least a quarterly basis.
- Strengthen procedures to review year-end audited financial statements of the investee funds supporting the fair values of its alternative investments and compare those results to the related year-end statements received from their fund manager in order to validate amounts provided by the fund managers throughout the fiscal year, including the Plans' fiscal year end.
- Develop an understanding of how the fund manager is arriving at fair values at year end to a level adequate to determine whether valuations of nonreadily marketable alternative investments are reasonable.
- Perform a benchmark analysis periodically to gauge the performance of the Plans' alternative investment portfolio against the market indices.
- Request the investment custodian and the third party investment managers to provide a service organization's Type II audit report at least annually to monitor internal controls at the investment custodian and the investment managers to ensure they have proper controls in place to ensure completeness and accuracy of the Plan's investment data.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

Management's Response

City of Atlanta agrees with the finding on reconciliation of the financial data with investment custodian and the independent investment fund managers. The City realizes the critical nature of this reconciliation and the impact on its financials and completed this reconciliation for quarters ending March and June 2015. We also agree on the analysis required on alternative investments as it relates to correct recording of fair value of these investments in the Pension books.

City is in agreement with the recommendations on procedures required to monitor and analyze the fair value of alternative investments to ensure completeness and accuracy of the Plans' investment data. City commits to increased communication with fund managers to obtain benchmark analysis reports, and audited financial statements of investee funds to verify the reasonableness of the fair values at year end.

General Employees' Pension Plan

Finding 2015-005

Eligibility of Plan Participants

Criteria

The valuation of the City's Pension is a crucial component of financial reporting. The City should ensure that data provided to actuaries for this valuation is complete and accurate.

Condition, Cause, and Effect

During our audit procedures, we noted one participant in the General Employees' Pension Plan (GEPP), out of a sample of 60 participants tested, who was inadvertently allowed to participate in the GEPP while the employee should have been included in the City's defined contribution plan based on the employee's pay grade. Failure to appropriately include or exclude employees based on the plan's provisions represents a failure to operate the GEPP in accordance with the plan document and could present an issue for plan tax qualification status.

Recommendation

We recommend that GEPP management perform procedures to verify participant eligibility before an employee is allowed to make contributions to the plan. Additionally, we recommend GEPP management periodically review the plan's active participants on a sample basis to verify whether the participant data is consistent with the pension beneficiary records and to update the plan's active participants when the existing participants no longer meet the plan's eligibility requirements to participate.

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Management's Response

City of Atlanta agrees with this finding. Pension Services conducts quarterly audits for all new hires to ensure the appropriate pension assignment was made by HR and Payroll during the onboarding process. There are system enhancements that will be made during the Oracle HR Module upgrade that will eliminate any potential error for new employee's pension assignment during the benefits and pension enrollment process. In addition, annual audits will be conducted on active employees to determine participant data is consistent with pension beneficiary records. Active employee's pension eligibility status should not change with a position change as long as the employee is still in a full-time benefit earning position.

Finding 2015-006

Accuracy of Census Data for Active Participants

Criteria

The valuation of the City's Pension is a crucial component of financial reporting. The City should ensure that data provided to actuaries for this valuation is complete and accurate.

Condition, Cause, and Effect

On an annual basis, an actuarial valuation is performed by Segal Consulting Services Inc. (the Actuary) to determine the City's total pension liability, or actuarial present value of accumulated plan benefits, and minimum required contribution related to the Plan. The Actuary provides valuation services for both the Atlanta Public Schools (APS) pension plan and City of Atlanta General Employees' Pension Plan (GEPP). The Actuary uses census data originated from the City but provided by each Plans' third party administrator (TPA) to perform the valuation using actuarial assumptions. The census data is comprised of information such as date of birth, date of hire or years of service, marital status, and eligible compensation. During our testing of census data, we noted 3 participants, from a sample of 65, in which the annual earnings and pensionable pay amount reported in the census data did not agree to the payroll support. We also noted discrepancies between information for a retiree provided to the actuary and the information the TPA has on file.

Recommendation

Given the significance of the census data in the actuarial valuations required under the new pension accounting standards, GEPP management's controls over significant elements of census data received from the City is of heightened importance. We recommend that GEPP management enhance its procedures to monitor the completeness and accuracy of the census data that is being reported to the TPA from the City. These procedures should include validating key data elements reported to the TPA to ensure the contributions and the other valuation inputs submitted are accurate and complete. We also recommend that GEPP management consider reconciling the census data provided to the Actuary by the TPA to their records prior to the valuation being performed by the Actuary. Plan management should consider the assessed level of risk of error when determining the extent and frequency of verification procedures performed. We believe these additional procedures will enhance the integrity of the data provided to the Plan's Actuary for the calculation of the net pension liability.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

Management's Response

The City agrees with the recommendation to develop administrative procedures that will validate key data elements reported to the TPA to ensure the contributions and the other valuation inputs submitted are accurate and complete. The process will include a reconciliation and review of the census data provided to the Actuary by the TPA to ensure the integrity of the data provided by the Actuary, as well as a review of the active census data by the City.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2015-007

Compliance Requirement: Equipment and Real Property Management

Federal Agency:	U.S. Department of Justice
Program:	Equitable Sharing for State and Local Law Enforcement Agencies
CFDA #:	16.922
Award #:	N/A
Award year:	N/A

Criteria

Federal regulations specify that institutions maintain equipment records, perform a physical inventory of equipment acquired through federal awards at least once every two years and reconcile results to the equipment records, utilize an appropriate control system to safeguard equipment, and adequately maintain equipment.

Condition

During the performance of audit procedures over federal equipment, we noted the following:

- During our observation of equipment, two items of a total of 40 items selected for observation, had been disposed and were not removed from the equipment listing. We further noted that for one item selected for observation, the related equipment records did not contain sufficient information to locate the item for observation.
- We noted that a physical inventory count of federal equipment has not been performed since 2007. While vehicles are being physically counted at least once every two years, no other equipment is fully inventoried as required. Federal equipment on hand related to this program at June 30, 2015 totaled approximately \$4,900,000.

Cause and Effect

Management lacks a systemic process to ensure that equipment records adequately indicate current location and are timely updated to reflect dispositions and that a physical inventory is taken at least every two years as required.

Questioned Cost

None.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

Recommendation

The City should enhance its policies and procedures to ensure that federal equipment inventory is properly identified upon receipt, that physical inventory counts are conducted at least every two years, and that property records are updated timely to reflect the proper status of all equipment.

Management Response

The City concurs with this finding. The Atlanta Police Department will conduct an inventory of all equipment procured with federal funding at least every two years. In addition, a list will be maintained of property procured and disposed on an ongoing basis.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

Finding 2015-008

Compliance Requirement: Allowable Costs

Federal Agency:	U.S. Department of Justice
Program:	Equitable Sharing for State and Local Law Enforcement Agencies
CFDA #:	16.922
Award #:	N/A
Award year:	N/A

Criteria

Under the U.S. Department of Justice Equitable Sharing Guide, Equitable Sharing funds can be used for the costs associated with the purchase, lease, construction, expansion, improvement, or operation of law enforcement or detention facilities used or managed by the recipient. Approval from the Asset Forfeiture and Money Laundering Section (AFMLS) of the U.S. Department of Justice for such expenditures is required.

Condition

During our review of 18 invoices, we noted seven invoices collectively totaling \$907,091 related to construction costs for which no approval of such costs was obtained from the AFMLS.

Cause and Effect

The City did not implement a systematic internal control process to ensure approval is obtained prior to incurring construction costs. As a result, construction costs were not approved by the AFMLS as required.

Questioned Cost

There were no questioned costs associated with the finding.

Recommendation

We recommend that the City implement internal controls around the approval of construction costs prior to incurring the costs.

Management Response

The City concurs prior approval was not obtained prior to incurring the construction costs. In the future APD will follow the approval processes are in accordance with federal guidelines and the City procurement guidelines.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

Finding 2015-009

Compliance Requirement: Equipment and Real Property Management

Federal Agency: Executive Office of the President
Program: High Intensity Drug Trafficking Area
CFDA #: 95.001
Award #: G13GA0003A; G14GA0003A
Award year: 2013 and 2014

Criteria

Federal regulations specify that institutions maintain equipment records, perform a physical inventory of equipment acquired through federal awards at least once every two years and reconcile results to the equipment records, utilize an appropriate control system to safeguard equipment, and adequately maintain equipment.

Condition

During the performance of audit procedures over federal equipment, we noted a physical inventory count of equipment has not been performed since 2012. Federal equipment on hand related to this program at June 30, 2015 totaled approximately \$1,700,000.

Cause and Effect

Management lacks a systemic process to ensure that a physical inventory count is performed at least every two years as required. As a result, a physical inventory count has not been performed since 2012.

Questioned Cost

None.

Recommendation

The City should enhance its policies and procedures to ensure a physical inventory count is performed at least every two years, and that property records are updated timely to reflect any related adjustments.

Management Response

The City concurs with this finding. The City of Atlanta/Atlanta-Carolinas HIDTA has implemented procedures to conduct a 100-percent physical inventory of HIDTA-purchased equipment on an annual basis at \$5,000 or more per item. The calendar year 2015 physical inventory report has been completed. The calendar year 2016 inventory will be completed by January 31, 2017.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

Finding 2015-010

Compliance Requirement: Reporting

Federal Agency: U.S. Department of Labor
Program: Workforce Investment Act Cluster

CFDA #: 17.258, 17.259, 17.278
Award #: 11-12-12-03-003; 11-12-13-03-003;
15-12-11-03-003; 31-12-12-03-003;
31-12-13-03-003
Award year: 2012 through 2014

Criteria

Under 2 CFR Section 215.51, each Federal awarding agency shall require a final close out report to be completed and submitted at the end of a program. Those reports should be complete, accurate and prepared in accordance with the required accounting basis.

Condition

During our review of the total population of 12 close-out reports required for fiscal year 2015, we noted that five close-out reports were not completed and submitted.

Cause and Effect

The City lacks a systemic process to ensure close-out reports are prepared and submitted timely. As a result, certain close-out reports were not prepared and submitted.

Questioned Cost

There were no questioned costs associated with the finding.

Recommendation

The City should strengthen procedures around ensuring that all required reports are properly prepared and submitted.

Management Response

The City concurs with this finding. The five close-out reports in question should have been completed as part of the closeout process for fiscal year 2014. During that time period, Atlanta Workforce Development was in the midst of a major organizational transition. As a result, the five close-out reports in question were overlooked. However, for fiscal year 2015, the required reports were completed and submitted. In addition, the City has a calendar of grant closeouts which is monitored on a quarterly basis to ensure financial compliance prior to expiration dates.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

Finding 2015-011

Compliance Requirement: Subrecipient Monitoring

Federal Agency: U.S. Department of Transportation
Program: National Infrastructure Investments Discretionary Grants
CFDA #: 20.933
Award #: P.I. #0009396
Award year: 2013

Criteria

A pass-through entity is responsible for monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contract, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition

During our review of the one subrecipient for this program, we noted the City performs monitoring over the subrecipient through review of reimbursement requests. However, we noted there is no documented review of the subrecipient monitoring related to compliance with special tests related to wage rates.

Cause and Effect

Management lacks a systemic process to ensure subrecipients are in compliance with wage rate requirements. As a result, documentation could not be provided by the City to support their review of monitoring the subrecipient's compliance with wage rate requirements.

Questioned Cost

None.

Recommendation

The City should develop and implement policies and procedures to ensure documentation of monitoring of subrecipients is maintained and includes monitoring of wage rate requirements.

Management Response

The City concurs with this finding. The City has established policies and procedures to ensure documentation to monitor subrecipients is in place. The checklist established will be followed.

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Notes to Schedule of Findings and Questioned Costs
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Finding 2015-012

Compliance Requirement: Cash Management

Federal Agency: U.S. Department of Agriculture
Program: Child and Adult Care Food Program
CFDA #: 10.558
Award #: 02513
Award year: 2015

Criteria

Under 2 CFR Section 215.22, reimbursements should be supported with documentation showing costs for which reimbursement was requested were paid prior to the date of the reimbursement request.

Condition

During our review of the total population of 11 reimbursement requests, we noted that for one reimbursement totaling \$4,207 there was no documentation of the expenditures incurred. We also noted during our review of 54 individual site reimbursement requests that the monthly menu reports for three sites did not agree to the sponsor's reimbursement summary that provided the basis for the reimbursement request.

Cause and Effect

Management lacks a systemic process to ensure monthly menu reports are reconciled to the sponsor's reimbursement summary. As a result, a reimbursement was not supported.

Questioned Cost

Known questioned costs of \$4,207.

Recommendation

The City should reconcile reimbursement summaries from the sponsor to the monthly menu reports to ensure reimbursement requests are properly calculated and supporting documentation is maintained.

Management Response

Based on the findings of the KPMG audit conducted, the City of Atlanta's Department of Parks and Recreation proposes to do the following adjustments to ensure that alignment exists between the city of Atlanta and the sponsoring organization:

- 1) Management has developed a tracking system to capture data pertaining to the associated cost respective to meals and snacks served monthly at each designated location.*
- 2) Management proposes to provide detailed summary to accompany the monthly menu reports submitted that consists of the total number of meals and snacks served per site monthly.*

CITY OF ATLANTA, GEORGIA
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3) Management will conduct an analysis to ensure that reimbursement requests coincide with the reimbursement summary of sponsoring agency. If discrepancies are identified, justification will be provided along with a corrective action to support findings.

In addition, Management will continue to review and assess any payments that may warrant reimbursement back to the sponsoring organization.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
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Finding 2015-013

Compliance Requirement: Eligibility

Federal Agency: U.S. Department of Labor

Program: Workforce Investment Act Cluster

CFDA #: 17.258, 17.259, 17.278

Award #: 11-12-12-03-003; 11-12-13-03-003; 11-13-13-03-003
55-13-14-03-003; 11-13-14-03-003; 11-14-15-03-003
15-12-11-03-003; 15-13-11-03-003; 15-14-14-03-003
15-15-15-03-003; 31-12-12-03-003; 31-12-13-03-003;
31-13-14-03-003; 44-13-13-03-003; 44-13-14-03-003;
31-14-15-03-003

Award year: 2011 through 2015

Criteria

Each program should maintain records that include all individuals receiving benefits during the period.

Condition

During our test work over eligibility, we noted the database used by the City to maintain the population of participants could not be accessed to determine the current eligible participants as opposed to participants receiving benefits in prior award periods. The database only allows participants to be searched by name or social security number.

Cause and Effect

Management lacks a systemic process to ensure complete populations of participants are maintained in the database. As a result, the database that stores participant information may not be complete.

Questioned Cost

There were no questioned costs associated with the finding.

Recommendation

We recommend that the City strengthen internal controls around ensuring the completeness of the population of participants in the program.

Management Response

The City concurs with this finding. In 2015 the agency defined business requirements to acquire, install and begin implementation of an effective case management software system. Management worked closely with the City's Department of Procurement and the Department of Information Technology to address AWDA's unique case management needs. From April through August 2015 implementation of phase one of the

CITY OF ATLANTA, GEORGIA

Notes to Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Customer Relationship Management Cloud Platform System was conducted. The Case Management system will provide staff with the ability to track the entirety of customer client base and caseworker relationships in real time. The system will also provide the capability to document current and detailed customer progress, performance, and workflow and data management. Management is well aware that having this capability is vital to AWDA's ability to successfully meet state and federal guidelines, as well as AWDA's increased internal performance metrics.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
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Finding 2015-014

Compliance Requirement: Allowable Costs

Federal Agency: U.S. Department of Labor

Program: Workforce Investment Act Cluster

CFDA #: 17.258, 17.259, 17.278

Award #: 11-12-12-03-003; 11-12-13-03-003; 11-13-13-03-003
55-13-14-03-003; 11-13-14-03-003; 11-14-15-03-003
15-12-11-03-003; 15-13-11-03-003; 15-14-14-03-003
15-15-15-03-003; 31-12-12-03-003; 31-12-13-03-003;
31-13-14-03-003; 44-13-13-03-003; 44-13-14-03-003;
31-14-15-03-003

Award year: 2011 through 2015

Criteria

To be allowable costs under Federal awards, costs must be allocable to Federal awards under the provisions of Circular A-87. Further, the City requires time allocation sheets to be submitted each pay period for all employees of the WIA program to support time charged to each program.

Condition

During our review of 40 payroll items, we noted 17 items for which the payroll allocation among the WIA Cluster did not agree to the timesheet submitted by the employee.

Cause and Effect

Management lacks a systemic process to ensure time entered into the payroll system agrees to the approved timesheet submitted by employees. As a result, the payroll allocations did not agree to the timesheets submitted.

Questioned Cost

There were no questioned costs associated with the finding.

Recommendation

We recommend that the City strengthen internal controls to ensure that payroll records agree to the approved timesheets submitted by employees.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
Year ended June 30, 2015

Management Response

The City concurs with this finding. A process has been implemented to ensure that payroll records agree to the approved timesheets. The process includes reconciliation between the employee timesheet, the Kronos timekeeping system, and agency's cost allocation plan. The timekeeper is responsible for Kronos maintenance and timesheets are monitored on a periodic basis for accuracy and cost allocation by the grants services manager. In addition the agency redesigned timesheets to better suit the needs of the agency.

CITY OF ATLANTA, GEORGIA
Notes to Schedule of Findings and Questioned Costs
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Finding 2015-015

Compliance Requirement: Cash Management

Federal Agency: U.S. Department of Homeland Security
Program: National Explosives Detection Canine Team

CFDA #: 97.072
Award #: DHS-TSA-08-072-001
Award year: 2015

Criteria

Under the Cooperative Agreement with the U.S. Department of Homeland Security, the Transportation Security Administration (TSA) will reimburse the City for amounts expended as outlined in the agreement.

Condition

During our review of the total population of 12 reimbursement requests, we noted one request in which \$25,570 in costs were not allowable and were not reimbursed by the federal agency.

Cause and Effect

Management lacks a systemic process to ensure reimbursement requests are for allowable costs as outlined in the cooperative agreement. This resulted in a request for reimbursement including unallowable costs.

Questioned Cost

There were no questioned costs associated with the finding.

Recommendation

We recommend that the City strengthen internal controls and documentation around ensuring requests for reimbursement are being completed for allowable costs as outlined in the cooperative agreement.

Management Response

The City concurs with this finding. The requests for reimbursements will be reviewed to ensure disallowed expenditures that are not requested for reimbursement.

Attachment No. 3
Management Letters



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

December 12, 2013

Honorable Mayor, Members of City Council,
and Audit Committee Members
City of Atlanta, Georgia

Honorable Mayor, Members of City Council, and Audit Committee Members:

We have audited the financial statements of the City of Atlanta, Georgia (the City) as of and for the year ended June 30, 2013, and have issued our report thereon dated December 12, 2013. In planning and performing our audit of the financial statements of the City, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following to be significant deficiencies in internal control:

Central Government

Accuracy of Accrual for Accounts Payable

In the 2012 internal control communications, KPMG noted a material weakness with respect to the accuracy of the accrual for accounts payable. The process in place at that time did not adequately capture year-end accruals, resulting in a significant audit adjustment. During fiscal 2013, the City implemented changes to their process for the accrual of period end liabilities,



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which relied heavily on the departments tracking invoices and coding them for proper exclusion or inclusion in the year end liabilities. When we tested this listing, it appears that the departments incorrectly coded items as being related to fiscal year 2013, when in fact, those items were related to fiscal year 2014, or vice versa. This resulted in multiple over and under accruals at year end, although in lower volume and smaller amounts than were noted in 2012, resulting in classification as a significant deficiency, and not a material weakness. The total amounts in error were not material to the CAFR, but the underlying process needs additional revision and users may require additional education to ensure appropriate accounting for future periods.

Recommendation

To the extent that manual accruals are used in the CAFR preparation, it is critical that those responsible for the completeness and accuracy of the accruals are provided training on how to determine the accruals. Also, manually prepared accruals should be reviewed and evaluated for propriety, rather than simply relying on departments for amounts that are being recorded.

Management's Response

The City will continue to refine the processes and procedures used during FY13 to ensure the completeness and accuracy of recording accruals. This will involve a review of the fiscal year closing process, as well as training personnel in the operating departments. In a decentralized purchasing environment, it is critical that departmental buyers understand the implication of invoices that are submitted for processing after the June 30 fiscal year close.

Firefighters' and Police Officers' Pension

Monitoring of Service Organizations

The City of Atlanta (City) uses outside service organizations to perform various functions for the City of Atlanta, Georgia Firefighters' Pension Plan and Georgia Police Officers' Pension Plan (the Plans) including safekeeping of assets, benefits claim processing and record keeping. Although the service organizations are charged with providing these services, the City remains responsible for ensuring that the control environment at the service organization remains sufficient to achieve the completeness and accuracy of plan administration and financial reporting.

During the audit, we noted that the City had obtained a service organization audit report for its Third Party Administrator (TPA), The Zenith Group. However, the service organization audit report did not cover the appropriate reporting periods for the fiscal year under audit. Additionally, the City did not perform any procedures to assess whether the TPA had applicable controls in place during the fiscal year and whether these controls were operating effectively. The lack of a current service organization audit report creates potential exposure to the City of control breakdowns which could impact pension reporting and the completeness and accuracy of financial information.



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As a result of the service organization audit report not covering the appropriate periods for the fiscal year under audit, we performed tests of controls at the TPA. For a sample of 40 benefit payments from each Plan, we noted there was no evidence of a second-level review before the release of payment for 4 benefit payments from the Firefighters' Pension plan and 4 benefit payments from the Police Officers' Pension plan. Failure to adequately review benefit payments prior to release could lead to the City making payments in the wrong amount or to participants who are no longer eligible for benefits.

Recommendation

We recommend that management implement procedures that establish requirements for the receipt and documented review of service organization audit reports. These requirements should address the timing of the receipt of the reports, the period covered relative to the City's fiscal year reporting, user control considerations, and the City's overall monitoring process for third party service providers. The City should review all service organization reports for control exceptions that impact the City and ensure that compensating user controls are in place to mitigate the risk of error or material misstatement.

Management's Response

The City agrees with the importance of monitoring the internal control processes of third party service providers (TPAs). The City will continue to stress the importance to its TPAs of producing an annual service organization audit report that could be used by the City's management and external auditors. The timing of the SSAE 16 evaluation of internal controls is based upon the TPA's ability to provide a single report that would serve all of its customers. A report that meets the needs of a majority of a TPA's clients may not cover 9 months of the City's fiscal year. The City is exploring multiple options to address this issue: requiring current TPAs to produce a report the City can use, making it a contract requirement for future TPAs, and having a separate engagement by the City.

Firefighters', Police Officers' and General Employees Pension Plan

Documentation of Deceased Pension Participants

For a sample of 40 deceased participants from the Firefighter's Pension plan, we noted the City did not adequately maintain a death certificate on file for 2 participants. Additionally, the City was unable to provide a file for 1 participant in our sample. For a sample of 40 deceased participants from the Police Officers' Pension plan, we noted the City did not adequately maintain a death certificate on file for 4 participants. Additionally, the City was unable to provide a file for 1 participant in our sample. For a sample of 40 deceased participants from the General Employee's pension plan, we noted the City did not adequately maintain a death certificate on file for 2 participants. Failure to maintain adequate records for deceased participants could lead to the City making payments in the wrong amount or to participants who are no longer eligible for benefits.



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Recommendation

We recommend the City perform periodic deceased participant review procedures. Periodically, the City should consider analyzing its deceased participant records by selecting a sample of deceased participants and performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records and adjust in those situations where eligibility requirements are no longer met. We also recommend the City consider reconciling deceased participant records to beneficiary payments made to participants to ensure payments are eligible and accurate.

Management's Response

The City Pension Services Department will continue to perform quarterly internal audits for deceased participants to ensure both pension and insurance participants' files are updated with all required information. The Insurance Division and Third Party Administrators (TPAs) have implemented a process to share death certificates for participants who were being provided benefits under the City's pension and/or insurance benefits as a check and balance system. The City and TPAs are prohibited by law from providing any disbursement of a pension beneficiary benefit or life insurance claim without a certified death certificate; therefore, the City is confident that proper documentation was provided prior to any disbursement of pension or insurance death claim funds. The City is planning to conduct an internal audit and file review of the employee benefits files (pension and insurance) by the end of fiscal year 2014 to ensure that all required pension and insurance information is included in the files.

General Employees' Pension

Maintain Documentation for Accrued Balances

The City was unable to provide adequate support for an amount accrued and carried forward from the prior year related to the employer contribution receivable from Atlanta Public Schools (APS) in the amount of \$8.3 million. The City indicated that during fiscal year 2011, an adjustment was made to record a receivable for an alleged unfunded portion of the annual required contribution (ARC) for fiscal year 2011. However, upon review of the APS Actuarial Valuation reports and the Schedule of Employer Contributions, the ARC was met and exceeded by APS for fiscal year 2011. Thus, there is no receivable due to the Plan from APS for fiscal year 2011. The failure to properly review and assess this period-end accrual as part of the financial reporting process contributed to this error.

Recommendation

We recommend that the City review and document support for all period-end accrued amounts recorded in the financial statements as part of the period end financial reporting process to ensure current accruals are accurate and previous accruals are still valid or are reversed.



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Management's Response

The City agrees with the necessity for period-end accruals to be accurate. The accounts receivable recorded in fiscal year 2011 relates to the Atlanta School Board Pension. This accrual was requested to be "booked" by the previous external auditors on the premise the employer contribution portion had not been paid. After further review it appears to be in error and will be corrected in fiscal year 2014.

Although not considered to be significant deficiencies or material weaknesses, we also noted the following items during our audit which we would like to bring to your attention.

Central Government

Documentation Related to Reporting Entity Considerations

During fiscal year 2013, the City implemented GASB Statement No. 61, *The Financial Reporting Entity*. This statement modifies current requirements for assessing potential component units in determining what should be included in the financial reporting entity and disclosure requirements. The City developed an analysis of all entities that are considered blended and discretely presented component units, however, this analysis did not include an evaluation of all entities that had previously been determined not to be component units under GASB's 14 and 39. Incomplete documentation with respect to the evaluation of potential component units can potentially impact the reporting entity by improperly excluding an entity.

Recommendation

We recommend that the Finance Department develop a comprehensive repository for the full population of potential component units, including those that have previously been determined not to be component units of the City. This should include all entities for which the Mayor or City Council has Board appointment authority. The documentation assembled should include all necessary documents, (i.e., articles of incorporation, by-laws, and relevant legislation). Maintenance of such documentation will serve as a valuable reference tool for management and other potential users. Further, management should consider consulting with management of potential component units in order to ensure both entities have shared all relevant information and are being consistent in presentation.

Management's Response

The City does keep necessary documentation related to each reported component. However, during the audit a question was raised about the Atlanta Housing Authority (AHA) which is not reported as a component unit. The City contacted management at AHA and obtained the required documentation which supported that it should not be a component unit of the City. The City now has all documentation for potential component units.



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Classification of PILOT and Franchise Fees

PILOT and Franchise fees that are charged to Watershed Management by the General fund were improperly classified. The City had classified these items as revenue and expense in the General fund and Watershed fund, respectively; however, these fees are more accurately classified as operating transfers. A reclassification was made, resulting in proper presentation in the CAFR.

Recommendation

We recommend that the City conduct a review of intra-governmental activities to enhance the accuracy of presentation in external reporting.

Management's Response

The City agrees and will review all intra-governmental transactions to ensure proper presentation in the operating statement.

Implementation of GASB 65

In fiscal 2013, the City implemented GASB 65, which clarifies that losses on refunding of debt should be reported as a deferred outflow of resources on the balance sheet. Management inappropriately wrote-off the unamortized balance of deferred losses on refunding to beginning Fund Balance, rather than reclassifying it in accordance with GASB 65.

Recommendation

While this item is not material to the financial statements, additional focus on implementation of new accounting pronouncements would be beneficial to the financial reporting process.

Management's Response

Although the journal entries that were posted were in accordance with the requirements of GASB 65, these balances did not get translated properly in the government-wide financial statements (government funds, full accrual). The City will work to refine the linkage between the general ledger and its government-wide financial statements.

Accuracy of Other Post Employment Benefits (OPEB) Underlying Data

During our testing of the OPEB valuation, we selected a sample of 15 terminated employees and noted 2 employees had not, in fact, been terminated. Further, for 2 employees, the date of birth and social security numbers provided were incorrect. In addition, we noted that the information to support the exclusion of persons not expected to participate in the post-employment health insurance was based on data that did not go beyond 2010.



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Recommendation

We recommend the City review the data in detail that is provided to the actuary for the generation of the OPEB liability to ensure the accuracy of the data. In addition, management should update the analysis of historical trend information regarding former employees who have “opted-out” of post-employment health insurance. These measures will better ensure accuracy of the estimated obligation.

Management’s Response

The City concurs the data provided to the actuary needs to be as accurate as possible in the determination of OPEB liability. The City will develop a process to review data used to estimate the OPEB prior to the completion of the final report. The City will also ensure that there is current trend support for assumptions used by the actuary regarding those eligible for coverage that will ultimately opt-out.

Information Technology – Access to Programs and Data

IT Policies

We noted significant improvement in the Information Technology (IT) area, where management was able to remediate successfully the material weaknesses noted in the prior year. However, for Kronos, password parameters such as password complexity and the password lockout threshold were not defined.

Recommendation

We recommend IT perform a system review to ensure all system configurations (for example, password configurations) are in line with the approved IT policies. Mitigating controls should be defined and documented for all systems where a system limitation is identified.

Management’s Response

DIT is fully aware of the password complexity and lockout threshold limitations in the current version of Kronos. Our current password policy, revised in Q1 of 2013, made an exception for the application based on this fact. The security team will perform annual system reviews to ensure all our financial systems are compliant with current IT policies. User reviews are performed bi-annually to ensure users’ access levels are appropriate to their job functions. The Kronos application is anticipated to be fully password compliant by December of 2014, when the version upgrade will be completed.

User Access

We noted the City implemented a process during the year for timely removal of terminated employees. However, for the first six months of the year, we noted 23 retired users and 24 terminated users with access to the General Fund active directory.



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Recommendation

Due to the significance of the IT systems within the City, we recommend IT continue to refine its processes and procedures to effectively identify and remove user access for users that have left the City. This is an important process to avoid inappropriate access or unauthorized transactions on key financial accounts or operational activities. IT should enable account logging for all terminated users that require active system accounts after termination and have access to input or edit transactions to key financial or operational activities.

Management's Response

DIT is committed to the continued refinement of processes and procedures to identify and remove user access for users that have left the City. In recognition that this is due to inter-departmental communication gaps, DIT implemented a termination/retiree notification process in Q2 of FY2013. Retired and terminated accounts are generated bi-weekly from Oracle ERP and the account information is sent to all system administrators to disable these accounts. In addition, quarterly user reviews are performed to identify and disable user accounts with over 90 days of inactivity. DIT will evaluate the need for further process refinement to log and track terminated users who, due to extenuating circumstances, still need access after their termination date.

Department of Watershed Management

Financial Reporting

The Comprehensive Annual Financial Report (CAFR) is the Department's official document which consists of management's representations concerning the finances of the Department. We noted certain matters in the Department's process of preparing the CAFR which are summarized below:

- Credit balances within accounts receivable (totaling to approximately \$10 million) were not reclassified as liabilities for financial reporting purposes.
- During fiscal 2013, Department management identified an accounting error that occurred in prior years. The error was discovered in connection with a clean-up effort related to prior years' accounting for inter-jurisdictional agreements with other municipalities. This resulted in an approximate \$11 million adjustment to revenue recorded in prior periods. While a previously existing deficiency in the internal control related to this accounting matter was identified by management, it should be noted that the accounting error from prior periods was corrected and underlying processes have been remediated during fiscal 2013.
- PILOT and Franchise fees of approximately \$18.7 million, which are charged to the Department by the City of Atlanta, were improperly classified as expenses, rather than operating transfers.



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- The Department currently splits one of its interest rate swaps into its effective and ineffective components for financial reporting purposes while GASB No. 53, *Accounting and Financial Reporting for Derivative Instruments* requires that derivative instruments are accounted for as one unit of account, with no adjustment for ineffectiveness, even if they are only partially effective. This matter impacts the classification of approximately \$4.4 million of current year activity related to the interest rate swap and not the fair value estimate as of the end of the financial reporting period.

Recommendation

While marked improvement was noted within the Department's financial reporting process year-over-year, further opportunities for streamlining and enhancing CAFR preparation and review procedures exist, particularly where there is shared responsibility among the Department and other City divisions relative to finalizing accounting and financial reporting aspects of important CAFR items. We recommend that the Department further formalize its CAFR review procedures to bring more focus to accounting treatment and classification of its more esoteric and nonroutine financial reporting items. Adding this focus to its existing financial reporting process should result in more accurate presentation of key amounts within the CAFR. We further recommend that specific protocols are established to ensure that accounting and financial reporting matters handled outside of the Department are fully understood and reviewed by Department personnel in connection with the CAFR preparation process.

Management Response

The Department of Watershed Management will work with the Department of Finance (DOF) to map out communications that will enhance the reporting of information for the CAFR particularly as it relates to the more esoteric and nonroutine financial matters confronted during the reporting period. We will also take additional steps to ensure that all known reporting issues are addressed during the fiscal period of occurrence.

Capital Assets

We noted that the Department operates under the City's capital asset policy which requires an annual inventory of capital assets to be taken. During the course of our audit, we noted that no such inventory was taken during fiscal year 2013.

Recommendation

We recommend that the Department monitor compliance with established policies and ensure that a physical inventory is completed during fiscal year 2014.

Management Response

Capital assets are managed centrally for the City at the Department of Finance. Thus, the policies regarding the inventory of assets are determined for the City as a whole. The



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Department of Watershed Management inventory of capital assets would be conducted as a department within the City. The policy reviewed during the audit was presented as a draft that the City was operating under. The fixed assets policy is being reviewed to change the occurrence of inventory that is feasible to the needs of the City. However, the City is aware of the requirement to conduct a biennial inventory on assets acquired with federal grant proceeds.

Monitoring of Access Rights for Customer Account Modifications

We noted that there is no formalized process to review and evaluate user access rights, specifically related to the ability to modify customer account balances and billings. The IT Department does maintain a listing of all employees with access to EnQuesta (as this can easily be generated from the system at any time), but the report does not include any information in terms of the type of access (i.e. read/write) or which modules or sub-programs within EnQuesta that an individual can access.

Further, we noted that a formal biannual audit of employee access to EnQuesta is performed. However, this is done to evaluate general access (using the listing noted above), and there is no consideration of specific access rights within the system.

We noted that there is a supervisory review of all adjustments that are posted to customer accounts. However, this is not a formalized process, and there is not sufficient documentary evidence to support the consistent occurrence or precision of this review.

Recommendation

We recommend that the Department further develop reporting options within EnQuesta to allow for the generation of more detailed access reports which include specific access rights by individual, to facilitate the monitoring process. These detailed access rights, specifically those related to the ability to modify customer account balances and billings, should be reviewed on a regular basis, either as part of the biannual audit performed by IT, or through a separate review by Department management. Additionally, we recommend that the Department institute approval thresholds for adjustments to customer accounts within the system, institute required review/approvals within the system, or develop a formalized manual review process of all adjustments recorded.

Management Response

The Department's IT Office will incorporate the access level as part of their biannual user access review. In addition, the Department will work with each group to improve the control procedures in place by formally documenting the operating process to mitigate the chances of inappropriate adjustments occurring. The department will be upgrading the EnQuesta Billing System to Version 4 in Fiscal Year 2015. The upgraded system will include controls that will allow for approval thresholds on employee access to the billing system adjustment process.



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Information Technology – Access to Programs and Data

Password settings on the Equinox system is not consistent with the City's established password policy, as the application does not have a provision to configure password settings.

Recommendation

We recommend that IT perform a system review to ensure all system configurations (such as the password configurations noted above) are in line with the approved IT policies. Mitigating controls should be defined and documented for all systems where a system limitation is identified.

Management Response

The DIT is fully aware of the password limitation of the Equinox application. This is addressed by limiting the number of computers the application is installed on (2) as well as the users who have access to this application (2). The Admin will manually force password changes every 90 days for both users. Meter readings are transferred to the Equinox database, and then uploaded to EnQuesta via hard coded scripts embedded in the user interface without any user interaction with reading values. The password policy was amended to include Equinox as an exception since it cannot currently satisfy the policy.

Information Technology – Computer Operations

During the course of our audit, we noted that back-up media was not tested for effectiveness or rotated offsite for either the EnQuesta or Equinox systems during the audit period. In addition, due to system limitations, a back-up log is not maintained for the EnQuesta system.

Recommendation

We recommend that the Department implement policies and procedures to ensure that adequate recoverability of key financial applications and system data exists in order to minimize system downtime should a disaster occur.

Management Response

The backup media for Equinox and EnQuesta was not tested during the FY2013 audit period because of the lack of a process for tape validation. However a validation was performed on 7/17/13 and 7/18/13 from EnQuesta and Equinox tapes respectively. The responsible administrator has since put a process in place and committed to performing media validation for EnQuesta and Equinox backup twice per year.



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Firefighters', Police Officers' and General Employees Pension Plan

Update of Plan's Investment Policy

During the audit, we noted the City made some changes to the investment asset allocation for the Plans to include alternative investments. These changes were approved by the Board of Trustees; however, the implementation of such changes caused the investment asset allocation to be noncompliant with the investment policy. The investment policy states the approved asset classes, which are domestic equities, domestic fixed income, and cash equivalents, as well as guidelines for allocation to each class. Allocation to alternative investments is not provided for in the current investment policy; however approximately 1% of the portfolio was allocated to alternative investments. The investment policy is enacted to state the investment objectives, provide guidelines for meeting the objectives, and ensure the Plan is in compliance with the Public Retirement Systems Authority Law of Georgia and the Uniform Prudent Investor Act under which it operates. Failure to remain in compliance with the investment policy and/or failure to update the investment policy for changes in objectives or laws and regulations could lead to the Plan not achieving its investment objectives or the Plan's noncompliance with certain laws and regulations.

Recommendation

We recommend that the City review and update the investment policy prior to making changes to the investment strategy or portfolio to ensure compliance with the policy. We also recommend the City consider updating the investment policy periodically to ensure current investment objectives and laws and regulations are properly reflected. The allocation of the portfolio to alternative investments changes the risk profile and requires greater focus around monitoring of controls and procedures involving the valuation assertion related to securities that may not be readily marketable. We encourage the City to enhance its controls and monitoring activities as the allocation toward alternative investments increases in the future.

Management's Response

The City agrees the investment policy should be kept up-to-date. Every effort will be made to update the investment policy prior to making changes to the investment asset allocation. However, there may be instances when policy change reviews may not be completed prior to investment changes taking place. The City will monitor investment activities to ensure controls are in place.

Police Officers' and General Employees' Pension Plan

Documentation of Retired Pension Participants

For a sample of 40 retired participants from the Police Officers' Pension plan, we noted the City did not adequately maintain a signed pension application form on file for 2 participants. For a sample of 84 retired participants from the General Employees Pension plan, we noted the City did not adequately maintain a signed pension application form on file for 1 participant. For that



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same participant, the City was unable to provide a benefits calculation form to substantiate the accuracy of the retirement benefit payment. Failure to maintain adequate records for retired participants could lead to the City making payments in the wrong amount or to participants who are no longer eligible for benefits.

Recommendation

We recommend that the City perform periodic retired participant review procedures. Periodically, the City should consider analyzing its retired participant records by selecting a sample of retired participants and performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records and adjust in those situations where eligibility requirements are no longer met. We also recommend the City consider reconciling retired participant records to benefit payments made to participants to ensure payments are eligible and accurate.

Management's Response

The City Pension Services Department will continue to perform quarterly internal audits for pension applications to ensure an accurate and complete application. The Third Party Administrators have implemented a process to ensure the pension files are complete, to include the application. The City is planning to conduct an internal audit and file review of the employee benefits files by the end of fiscal year 2014 to ensure that all pension files are complete with the application.

General Employees' Pension Plan

Eligibility of Plan Participants

During the testwork over participant eligibility, we noted 2 employees out of a sample of 40 who were included in the defined benefit plan when they should have been included in the defined contribution plan based on their pay grade. Failure to appropriately include or exclude employees based on the plan's provisions represents a failure to operate the Plan in accordance with the Plan document and could present an issue for Plan tax qualification status.

Recommendation

We recommend that the City ensure procedures are followed in order to determine participant eligibility is verified prior to changes being made within the payroll system. In addition, we recommend the City perform periodic active participant review procedures. Periodically, the City should consider analyzing its participant records by selecting a sample of active participants and performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records and adjust in those situations where eligibility requirements are no longer met.



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Management's Response

The City will carefully review employee's records to be certain they are in the proper plan. This review is especially important when an employee is promoted, or changes status that may impact eligibility for participation in a particular pension plan.

Monitoring of Service Organizations

The City of Atlanta (City) uses outside service organizations to perform various functions for the City of Atlanta, Georgia Police Officers' Pension Plan (the Plan) including safekeeping of assets, benefits claim processing and record keeping. Although the service organizations are charged with providing these services, the City remains responsible for ensuring that the control environment at the service organization remains sufficient to achieve the completeness and accuracy of plan administration and financial reporting.

During the audit, we noted that the City had obtained a service organization audit report for its Third Party Administrator (TPA), The GEM Group. However, the report only covered three months of the fiscal year under audit. Additionally, the City did not perform any procedures to assess whether the TPA had applicable controls in place during the fiscal year and whether these controls were operating effectively. The lack of a current service organization audit report creates potential exposure to the City of control breakdowns which could impact pension reporting and the completeness and accuracy of financial information.

Recommendation

We recommend that management implement procedures that establish requirements for the receipt and documented review of service organization audit reports. These requirements should address the timing of the receipt of the reports, the period covered relative to the City's fiscal year reporting, user control considerations, and the City's overall monitoring process for third party service providers. The City should review all service organization reports for control exceptions that impact the City and ensure that compensating user controls are in place to mitigate the risk of error or material misstatement.

Management's Response

The City agrees with the importance of monitoring the internal control processes of third party service providers (TPAs). The City will continue to stress the importance to its TPAs of producing an annual service organization audit report that could be used by the City's management and external auditors. The timing of the SSAE 16 evaluation of internal controls is based upon the TPA's ability to provide a single report that would serve all of its customers. A report that meets the needs of a majority of a TPA's clients may not cover 9 months of the City's fiscal year. The City is exploring multiple options to address this issue: requiring current TPAs to produce a report the City can use, making it a contract requirement for future TPAs, and having a separate engagement by the City.



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Central Government and All Pension Plans

New Pension Accounting Pronouncements

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, an amendment of GASB Statement No. 25. This statement improves financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This statement will be effective for the City in fiscal year 2014.

GASB Statement No. 68, *Accounting and Reporting for Pension Plans*, was issued in June 2012. The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees – both active employees and inactive employees – are provided with pensions. One aspect of that objective is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of state and local governmental employers. Another aspect of that objective is to provide users with information about the government's pension obligations and the assets available to satisfy those obligations. This statement will be effective for the City in fiscal year 2015.

Under GASB 67, an actuarial valuation of the total pension liability is required to be performed at least once every two years, with more frequent valuations encouraged. If a valuation is not performed as of the pension plan's fiscal year-end, the total pension liability is required to be based on update procedures designed to roll forward amounts from an earlier actuarial valuation (performed as of a date no more than 24 months prior to the pension plan's fiscal year end).

Recommendation

We recommend the City consult with its pension actuaries timely to discuss the implications of these new pronouncements. Expanded disclosures are required regarding significant assumptions and other inputs used to calculate total pension liabilities, including those about inflation, salary changes, ad hoc postemployment benefit changes, inputs to the discount rate, as well as certain information about mortality assumptions and experience studies: therefore, the City needs to inform its actuaries of all information they will need for presentation in the footnotes early, so as not to delay financial reporting. Further, the allocation of the pension liability between the City and Atlanta Public Schools (APS) needs to be resolved and discussed with APS, as APS will be required to report their portion of the liability in their financial statements.

Management's Response

The City has scheduled a joint meeting with the pension actuaries, auditors, the Atlanta Public Schools and the pension investment consulting firms to discuss the implementation of pension



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accounting standards. This joint meeting will assist in a complete and smooth transition to the pension accounting standards to ensure accurate financial reporting.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments with you at any time.

Management's written response to the deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Honorable Mayor, Members of City Council, the Audit Committee, management, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

December 16, 2014

Honorable Mayor, Members of City Council,
and Audit Committee Members
City of Atlanta, Georgia

Honorable Mayor, Members of City Council, and Audit Committee Members:

We have audited the financial statements of the City of Atlanta, Georgia (the City) as of and for the year ended June 30, 2014, and have issued our report thereon dated December 16, 2014. In planning and performing our audit of the financial statements of the City, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the City's internal control to be material weaknesses:

Monitoring of Capital Assets

The City has approximately \$11.8 billion in capital assets as of June 30, 2014. We noted deficiencies in the City's record keeping and monitoring of those assets which are summarized below:

- At June 30, 2014, the City had approximately \$119 million in construction in progress (CIP). During the year, the City had recorded \$48.1 million to expense various items in CIP in an effort to clear out older balances for projects which were no longer in process. Upon our review, it was determined that the items had been expensed prior to completion of a



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comprehensive review to determine whether certain items could be capitalized. As a result, management reversed the \$48.1 million expense and performed further analysis to determine the appropriate CIP balance.

- As a result of that further analysis, it was determined that approximately \$20.8 million of balances recorded in CIP should have been previously capitalized into a fixed asset category. For those assets, depreciation of approximately \$4.7 million should have been recorded as of June 30, 2014. Management made an adjusting entry to reflect the correct balances.
- During our physical observation of capital assets, we noted several items that could not be linked back to the capital asset detail listing due to lack of sufficient detailed identifying information in the fixed assets records. For example, in certain cases, the vehicle identifying number (VIN) was not listed in the fixed asset detailed ledger, making it difficult to link the physical asset to the specific item in the detail.
- The City has not conducted a complete physical inventory of capital assets since 2007. Certain departments (primarily those holding assets purchased through federally funded grants) have performed inventory verification procedures of those assets, but a complete verification City-wide has not been performed in several years.

Recommendation

We recommend that the City strengthen policies and procedures around accounting for and monitoring capital assets, including periodic reconciliation and verification of movement of assets from CIP to depreciable asset categories, ongoing monitoring of amounts classified as CIP, and reconciliation of detailed capital assets ledgers to the general ledger. Further, a comprehensive physical inventory should be completed and updated on a periodic basis.

Management Response

The City agrees with the need for accurate accounting and monitoring of capital assets along with strong policies and procedures applicable City-wide. As such, there is regular central review of capital assets and current CIP activity including movement to depreciable asset categories. The clean-up and reconciliation of old CIP balances has been an ongoing, long term project that was started in 2009 with the Enterprise funds. Although there has been much progress in reclassifying old Governmental fund CIP balances to the proper depreciable asset categories, the project was not complete at fiscal 2014 year-end. It is anticipated the governmental funds CIP reconciliation will be completed by the end of fiscal year 2015. Moving forward, the Department of Finance will ensure effective and regular communication, to departments having CIP balances, of the need for timely notification of capital project completion so that balances can be placed in service.



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A request for proposal to have an inventory of moveable equipment is being reviewed and is anticipated to be released no later than the second quarter of calendar year 2015. A part of the inventory requirement will be to ensure all assets have the appropriate identification detail recorded in the fixed assets module.

Police Officers' and Firefighters' Pension Plans

Monitoring of Service Organizations

The City of Atlanta (City) uses outside service organizations to perform various functions for the City of Atlanta, Georgia Police Officers' and Firefighters' Pension Plans (the Plans) including safekeeping of assets, benefits claim processing, and record keeping. Specifically, the Plans' Third-Party Administrator (TPA) performs the calculation of the monthly pension benefit amount for each employee upon retirement, administers the process for disability and beneficiary benefits, processes benefit payments, and maintains retired participant records. Although the TPAs are charged with providing these services, Plan management remains responsible for ensuring that the internal control environment at the TPAs is sufficient to achieve the completeness and accuracy of plan administration and financial reporting.

During the audit, we noted that the Plans' management had not obtained a service organization audit report for its TPA, Zenith American Solutions, and the most recent service organization audit report did not cover the appropriate reporting periods for the Plans' fiscal year under audit. Additionally, Plan management did not perform any procedures to assess whether the TPA had applicable controls in place during the fiscal year and whether these controls were operating effectively. The lack of a current service organization audit report creates potential exposure to the Plans of control breakdowns which could impact pension reporting and the completeness and accuracy of financial information.

Recommendation

We recommend that Plan management implement procedures that establish requirements for the receipt and documented review of service organization audit reports. These requirements should address the timing of the receipt of the reports, the period covered relative to the City's and Plans' fiscal year reporting, user control considerations, and Plan management's overall monitoring process for TPAs. Plan management should review all service organization reports for control exceptions that impact the Plan and ensure that compensating user controls are in place to mitigate the risk of error or material misstatement to the Plans' financial statements.

Management's Response

Plan management agrees the Third Party Administrator (TPA) needs to provide a service organization audit report to assess internal controls. The TPA has been asked to make arrangements for the completion of a service organization audit report to be conducted through March 31, 2015. The report is expected to be provided in July 2015.



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Accuracy of Active Participant Census Data

On an annual basis, an actuarial valuation is performed to determine the City's total pension liability, or actuarial present value of accumulated plan benefits, and minimum required contribution related to the Plans. The Plans' Actuary uses census data provided by the City via the TPA to perform the valuation using actuarial assumptions. The active participant census data is a particularly important input used in the valuation as it impacts a significant portion of the total liability, which involves the most estimation uncertainty.

For a sample of 25 active participants for each plan, we noted the payroll amounts per the census data, used by the Plans' Actuary for the July 1, 2013 valuation, did not agree to the pensionable pay amounts per the City's payroll submissions for all participants tested. It was determined that the census data payroll amounts provided to the Actuary by the TPA did not include the correct pensionable pay pursuant to the Plan provisions. Additionally, Plan management did not perform any procedures to ensure the accuracy of the census data provided to the Actuary. Failure to ensure the accuracy of the census data provided to the Actuary could lead to inaccurate valuation of the total pension liability and related disclosures in the Plans' financial statements.

Recommendation

We recommend that Plan management perform procedures to ensure the completeness and accuracy of the census data provided to the Actuary for the valuation. Plan management should ensure the TPA provides complete and accurate census data in accordance with the Plan provisions, including amendments. We also recommend that Plan management consider reconciling the census data provided to the Plans' Actuary by the TPA to their records prior to the performance of the valuation by the Plans' Actuary.

Management's Response

Plan management agrees with the importance of providing complete and accurate census data to the Actuary. Plan management is in the process of establishing procedures where the payroll data will be reviewed prior to being provided to the Actuary. In addition, Plan management is establishing a procedure to review the payroll data of the active participants prior to the Actuary issuing the final valuation report.

A significant deficiency is a deficiency, or combination of control deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City's internal control to be a significant deficiencies:



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Central Government

Accuracy of Accrual for Accounts Payable

We continue to note improvement in the process of recording year end liabilities. During fiscal 2013, the City implemented a process to review vendor payments through the first week of October of the subsequent fiscal year for the accrual of period end liabilities, which has greatly improved the accuracy of recording those liabilities for financial reporting purposes. However, when we tested vendor payments after this period, we noted other expenses that should have been in the fiscal year end accrual. This resulted in under accruals at year end, although in lower volume and smaller amounts than were noted in 2013. The total amounts in error were not material to the Comprehensive Annual Financial Report (CAFR), but the underlying process needs additional revision.

Recommendation

We recommend the City extend the search period through the end of October to enhance the process to review invoices that may come in after year end but before the CAFR is completed, to determine if such amounts should be recorded as liabilities at June 30. Where feasible, additional centralization of such processes combined with enhanced education of personnel responsible for receiving and approving invoices, should help to improve controls in this area.

Management's Response

The City will continue to train and educate employees on the accrual process. The accrual review process will be extended through the month of October to determine if additional amounts should be recorded prior to the CAFR being completed.

Department of Watershed Management

Financial Reporting

The Comprehensive Annual Financial Report (CAFR) is the Department of Watershed Management's (the Department) official document which consists of management's representations concerning the finances of the Department. We noted certain matters in the Department's process of preparing the CAFR which are summarized below:

- Capital assets records are not maintained at a sufficiently detailed level for effective tracking and monitoring of the capital assets after they are added to the capital assets sub-ledger.
- Inter-jurisdiction receivables and revenue receivables are not properly reconciled based on the most recently available information before closing. The inter-jurisdiction receivable was overstated by \$1.6M at year-end while the revenue receivable was understated by \$1.7M.
- Legal reserve is not accrued based on most recent development of known cases before closing.



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- The Department maintains a listing of 'on-hold' payables that is utilized as a holding account for items requiring further effort in order to determine proper processing in the general ledger. We noted that goods and services that are logged on the on-hold list are not always timely investigated and accrued.
- Construction in Process (CIP) projects that were in place prior to implementation of the current Oracle system were carried over into the new system in lump sum without sufficient detail to be matched and transferred out from the CIP balance automatically when placed into service. Also, there is a lack of subsequent review to determine whether project expenses are properly capitalized as CIP. As a result, \$7M of CIP was written off during fiscal year 2014.

Recommendation

While noticeable improvement has been noted within the Department's financial reporting process year-over-year, further opportunities for streamlining and enhancing CAFR preparation and review procedures exist. We recommend that the Department further formalize its CAFR review procedures to bring more focus to accounting treatment and classification of its more esoteric and nonroutine financial reporting items. Adding this focus to its existing financial reporting process should result in more accurate presentation of key amounts within the CAFR.

Management Response

The Department will continue to work with the Department of Finance (DOF) to arrange communications that will enhance the reporting of information for the CAFR particularly as it relates to the more esoteric and nonroutine financial matters confronted during the reporting period. Additional steps will also be taken within the department to ensure that all known reporting issues are addressed during the fiscal period of occurrence.

General Employees' Pension Plan

Monitoring of Service Organizations

The City of Atlanta (City) uses outside service organizations to perform various functions for the City of Atlanta, Georgia General Employees' Pension Plan (the Plan) including safekeeping of assets, benefits claim processing and record keeping. Specifically, the Plan's Third-Party Administrator (TPA) performs the calculation of the monthly pension benefit amount for each employee upon retirement, administers the process for disability and beneficiary benefits, processes benefit payments, and maintains retired participant records. Although the service organizations are charged with providing these services, Plan management remains responsible for ensuring that the internal control environment at the service organization is sufficient to achieve the completeness and accuracy of plan administration and financial reporting.



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During the audit, we noted that Plan management had obtained a service organization audit report for its TPA, The GEM Group. However, the audit report timeframe was not consistent with the Plan's fiscal year end. Additionally, Plan management did not perform any procedures to assess whether the TPA had applicable controls in place during the fiscal year and whether these controls were operating effectively. The lack of a current service organization audit report creates potential exposure to the Plan for control breakdowns which could impact pension reporting and the completeness and accuracy of financial information. Further, as the TPA administers the Plan, the controls at the TPA are highly important to the financial reporting process and execution of internal controls over administration of the Plan.

Benefit payments, which are calculated at the TPA, are required to be calculated in accordance with Plan provisions and represent the largest expense of the Plan. For a sample of 88 retired participants, we noted Plan management via the TPA did not adequately maintain a benefits calculation form to substantiate the accuracy of the retirement benefit payment for three participants. For one of those participants, Plan management was also unable to provide a signed pension application form. Failure to maintain adequate records for retired participants could lead to the Plan making payments in the wrong amount or to participants who are no longer eligible for benefits.

Recommendation

We recommend that Plan management implement procedures that establish requirements for the receipt and documented review of service organization audit reports. These requirements should address the timing of the receipt of the reports, the period covered relative to the City's and Plan's fiscal year reporting, user control considerations, and Plan management's overall monitoring process for third party service providers. Plan management should review all service organization reports for control exceptions that impact the Plan and ensure that compensating user controls are in place to mitigate the risk of error or material misstatement to the Plan's financial statements.

In addition, we recommend that Plan management perform periodic retired participant review procedures. Periodically, Plan management should consider analyzing its retired participant records by selecting a sample of retired participants and performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records and adjust in those situations where eligibility requirements are no longer met. We also recommend that Plan management consider reconciling retired participant records to benefit payments made to participants to ensure payments are eligible and accurate.

Management's Response

Plan management agrees the Third Party Administrator (TPA) needs to provide a service organization audit report to assess internal controls. The TPA has been asked to make



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arrangements for the completion of a service organization audit report to be conducted through March 31, 2015. The report is expected to be provided in July 2015.

In addition, the Pension Services Department will perform bi-annual audits on a sample of retired participant benefit payments for accuracy and participant eligibility status. Plan management will request the TPAs to provide monthly reports on all adjustments to participant beneficiary records that would have an impact on their benefit payment or eligibility status.

Monitoring of Benefit Payments

During the testwork over benefit payments made during fiscal year 2014, we noted two out of 88 sample items resulted in overpayments. One of the overpayments was due to a retroactive payment adjustment that was not changed after the initial payment was made in 2008. The second overpayment resulted from a benefit payment calculation error in which the 80% cap for the benefit payment was not appropriately applied. These exceptions occurred due to improper review and monitoring of final calculations of benefits being paid on a regular basis. Although the TPA, The GEM Group, is charged with calculating and processing the benefit plans, it is Plan management's responsibility to ensure benefits are being calculated properly. Further, as described in Finding 2014-001, as the TPA administers the Plan, the controls at the TPA are highly important to the financial reporting process and failure to monitor such controls increases the risk for potential incorrect benefit payments.

Recommendation

We recommend that Plan management perform periodic retired participant review procedures. Periodically, Plan management should consider analyzing its retired participant benefit payments and records by selecting a sample of retired participants and reconciling retired participant records to benefit payments made to participants to ensure payments are eligible and accurate. We also recommend Plan management consider performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records.

Management Response

Plan management agrees with the importance of monitoring the internal control processes of third party service providers (TPAs). The Pension Services Department will perform bi-annual audits on a sample of retired participant benefit payments for accuracy and participant eligibility status. Plan management will request the TPAs to provide monthly reports on all adjustments to participant beneficiary records that would have an impact on their benefit payment or eligibility status.

Eligibility of Plan Participants

During the testwork over participant eligibility, we noted one participant out of a sample of 40 who was improperly included in the defined benefit plan when they should have been included



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in the defined contribution plan based on their pay grade. Failure to appropriately include or exclude employees based on the Plan's provisions represents a failure to operate the Plan in accordance with the Plan document and could present an issue for Plan tax qualification status.

Recommendation

We recommend that Plan management perform procedures to determine participant eligibility is verified to ensure proper inclusion for Plan benefits. In addition, we recommend Plan management perform periodic active participant review procedures. Periodically, management should consider analyzing its participant records by selecting a sample of active participants and performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records and adjust in those situations where eligibility requirements are no longer met.

Management's Response

Pension Services will continue to conduct quarterly reviews on new employees' pension assignments completed by DHR HRIS/Records Management and Payroll. Employees and the Payroll Department are notified by Pension Services on changes or corrections required in employee pension assignments. DHR HRIS/Records Management is responsible for making the corrections to the employee's record and Finance/Payroll is responsible for all financial transactions relating to employee funds being placed in the correct pension plan. Errors regarding employee pension assignments primarily happen during the initial on-boarding process with the City. Typically when an employee is promoted or changes status it will not impact their pension eligibility unless it involves a retirement or change in job status to a temporary nonbenefit earning position.

Although not considered to be significant deficiencies or material weaknesses, we also noted the following items during our audit which we would like to bring to your attention.

Completeness and Accuracy of the Schedule of Expenditures of Federal Awards

The City expended approximately \$57 million in federal funding in fiscal year 2014. During our audit, we noted that the City's 2014 Schedule of Expenditures of Federal Awards (SEFA) excluded certain federal expenditures, including certain expenditures of the Department of Aviation related to awards funded by the U.S. Department of Homeland Security. Due to decentralization of the grants process, those responsible for gathering the information required to prepare the SEFA were not aware of the awards. We noted that the individual departments with oversight responsibility for each government grant submit the information required to prepare the SEFA to the City's Grants manager; however, there is not an adequate management level review performed on the data to ensure all grants are reported.



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Recommendation

We recommend that the City implement a more centralized approach to tracking all of the federal grants and related activity that flow through the City. A more centralized approach with regard to reporting on grants would help to ensure that all grants are being monitored and aid in ensuring proper presentation of the SEFA.

Management's Response

The City agrees the SEFA needs to present all grant expenditures for the fiscal year. The City is in the process of establishing a separate fund for grants awarded to the Airport. All Airport grants will be set up in this fund which will establish accountability for each grant separately through an assigned project. In addition, a policy will be written requiring a copy of all grants awarded to be provided to the Office of Grants Accounting.

Accuracy of Other Post-Employment Benefits (OPEB) Underlying Data

The City uses department headcount for allocation the OPEB liability to specific departments. During our testing of the OPEB liability valuation, we noted variances in the headcount numbers used for the allocation due to a spreadsheet error, which resulted in a \$2.7 million understatement of the OPEB liability on the government wide financials.

Recommendation

We recommend the City employ a more robust review of the detail used in the allocation of the OPEB liability. Specifically, the review should ensure the manual calculations are correct prior to recording the liability. These measures will better ensure accuracy of the allocation of the estimated obligation.

Management's Response

The City agrees the OPEB liability needs to be properly allocated to the departments. An additional review will be established to ensure OPEB costs are calculated prior to recording the liability.

Coordination of Information for Legal Accruals

Under the City's current procedures, the accumulation of information to determine accruals for legal exposures is highly manual and the process is not formally documented. As a result, certain legal settlements which were paid after year-end, but which related to matters that existed at year end were not appropriately accrued.

Recommendation

Formal process documentation of how legal accruals are established and monitored should be prepared jointly by the legal and finance departments, so that each department has a written



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procedure to follow. Such documentation should include a review of legal settlements after year-end to ensure consideration for accrual in the year-end closing process. Developing such information will enable each department to have a tool to use for training purposes, as well as to ensure adequate coordination and communication between the legal and finance departments, particularly in situations of personnel transitions.

Management's Response

The City concurs with the need to improve tracking cases involving legal liability. Management implemented a system to identify open cases and their potential legal liability. A quarterly report will be generated from the Time Matters software program and reviewed to ensure all matters have been assessed. Internal controls have been implemented to ensure closed cases are properly and promptly identified.

Information Technology – Access to Programs and Data

IT Policies

We noted continued improvement in the Information Technology (IT) area again in 2014. However, there are still certain areas that require additional improvement. Specifically, for Kronos, password parameters such as password complexity and the password lockout threshold were not defined.

Recommendation

We recommend IT perform a system review to ensure all system configurations (for example, password complexity and lockout) are in line with the approved IT policies. Mitigating controls should be defined and documented for all systems where a system limitation is identified.

Management's Response

The Kronos application is now in full compliance with the City's password policy. Password configuration changes were not implemented during go-live for the version 7 upgrade in order to minimize possible negative impact to business operations.

User Access

We noted the City implemented a process during the year for timely removal of terminated employees. However, for the Kronos application, we noted 22 retired users and 10 terminated users with access to the application. There was no access review for Kronos for the period of July 2013 to December 2013. Further, we noted 23 retired and 35 terminated users with access to the General Fund active directory.



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Recommendation

Due to the significance of the IT systems within the City, we recommend IT continue to refine its processes and procedures to effectively identify and remove user access for users that have left the City. This is an important process to avoid inappropriate access or unauthorized transactions on key financial accounts or operational activities. IT should enable account logging for all terminated users that require active system accounts after termination and have access to input or edit transactions to key financial or operational activities.

Management's Response

The City agrees terminated/retired users identified were not removed via the demographic update and were not included in the biweekly reports. However, the accounts have been since corrected. DIT will work to continue refining the user access review process and work with HR to ensure terminated and retired users are appropriately flagged.

Application Upgrade

We noted the City upgraded the Kronos application in May 2014. Formal validations of system checks were not completed for the Kronos version 7 upgrade as of May 23, 2014. We noted that the validations were verbally confirmed by the Director of Payroll in an effort to make the payroll cutoff, however, this was not formally documented. Out of the 17 departments which were to perform a cut-over validation, only 3 departments had completed the cut-over validation as of May 23, 2014. We did note that a total of 13 departments had completed the cut-over validation as of August 6, 2014 and the remaining 4 departments had completed the validation by August 20, 2014.

Recommendation

We recommend the City implement a process to ensure validations of system checks are received prior to going live on a new system.

Management's Response

Time constraints combined with the lack of timely responses from time keepers resulted in not having all validation checklist signed before Go-Live. However the following actions were taken prior to Go-Live:

- 1. All departments provided verbal confirmation of testing and the necessary validation required by the validation checklist.*
- 2. DB level validation for data migrations was performed.*

The Project Management Office will refine the validation process to ensure the agreed upon system checks are in place before moving the new application or system into production.



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Department of Watershed Management

Capital Assets

The Department has not conducted a complete physical inventory of its capital assets since 2007.

Recommendation

We understand that the Department is currently working with the central city government on establishing and implementing a new capital asset policy which will set forth, among other things, policy around tracking and monitoring of capital assets including periodic physical inventory requirements. We recommend that the Department approve and implement its new formalized capital asset policy as soon as practicable.

Management Response

The Department of Watershed Management will conduct physical inventories of buildings and equipment during FY 2015. The Department's internal user agencies will work together to evaluate the assets at each Watershed Management facility. The Department will work with the Department of Finance to improve the method of capturing the inventory on hand through electronic means to increase the efficiency. The Department will continue working with the central city government to assist with the completion of a final capital asset manual and will work to build an in-house capital asset manual based on the finalized central city government manual.

Monitoring of Access Rights for Customer Account Modifications

We noted that there is no formalized process to review and evaluate user access rights, specifically related to the ability to modify customer account balances and billings. The IT Department does maintain a listing of all employees with access to EnQuesta (as this can easily be generated from the system at any time), but the report does not include any information in terms of the type of access (i.e., read/write) or which modules or sub-programs within EnQuesta that an individual can access.

Further, we noted a formal review of employee access to EnQuesta should be performed during every six-month period. However, the review for six-month period from July through December 2013 was not timely performed. Additionally, we note the review is done to evaluate general access only (using the listing noted above), and there is no consideration of specific access rights within the system.

We noted that there is a supervisory review of all adjustments that are posted to customer accounts. However, this is not a formalized process, and there is not sufficient documentary evidence to support the consistent occurrence or precision of this review.



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Recommendation

We recommend that the Department further develop reporting options within EnQuesta to allow for the generation of more detailed access reports which include specific access rights by individual, to facilitate the monitoring process. These detailed access rights, specifically those related to the ability to modify customer account balances and billings, should be reviewed on a regular basis, either as part of the biannual audit performed by IT, or through a separate review by Department management. Additionally, we recommend that the Department institute approval thresholds for adjustments to customer accounts within the system, institute required review/approvals within the system, or develop a formalized manual review process of all adjustments recorded.

Management Response

The Department user access reviews were completed in April and December 2014. A list of current users and their access level was generated from the application for the review. This included EnQuesta users' access level for bill calculations and bill adjustments. Users who no longer need certain access levels were adjusted to a level deemed adequate to perform their daily functions as per their managers. Accounts were disabled for users who no longer needed EnQuesta access. The Department will be upgrading the EnQuesta Billing System to Version 4 in Fiscal Year 2015. The upgraded system will include controls that will allow for approval thresholds on employee access to the billing system adjustment process.

Police Officers' and Firefighters' Pension Plans

Compliance Matter Regarding the Plan's Tax Status

During our review of each of the Plans' qualified status, we noted compliance issues related to the Plans' tax-exempt status and the Plans' qualified status. We noted that the Plans have not been timely amended for compliance with the standards of the Heroes Earnings Assistance and Relief Tax (HEART) Act of 2008. The amendment deadline for the HEART Act provisions for governmental plans was extended until the end of the 2012 plan year, or June 30, 2013. Failure to timely amend the Plans for compliance with the standards of the HEART Act provisions could disqualify the exempt trust.

Recommendation

We recommend that the City consider involving legal counsel to assess the adequacy of each of the Plans' corrective action plan related to the compliance issue on the Plans' tax-exempt status. This may include amending the Plans accordingly through the legislative process and the Plan Sponsors' request for relief from the Internal Revenue Service (IRS) under its Voluntary Correction Program (VCP), a component of the IRS's Employee Plans Correction Resolution System (EPCRS) in order to ensure the Plans' continued qualification for exemption from income taxation.



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Management's Response

The City agrees action is needed to adopt the HEART amendments to include language required by the IRS. Ordinances 14-O-1631, 14-O-1632, and 14-O-1633 were introduced as walk-on papers during the December 10, 2014 Finance and Executive committee meeting. These three pieces of legislation incorporate the required IRS language into each of the pension plans. Further, the legislation will be considered by each of the pension boards at their January 2015 meetings so that they may provide a nonbinding recommendation as required by City Code. It is expected this corrective legislation will be adopted by City Council at their meeting on January 19, 2015.

Firefighters' Pension Plan

Monitoring of Benefit Payments

During the testwork over benefit payments made during fiscal year 2014, we noted one out of seven sample items resulted in an overpayment of approximately \$300 per month since 2004. The overpayment was due to an error in the calculation of the monthly pension benefit amount when the participant retired in 2004. Although the TPA is charged with calculating and processing the benefit plans, it is Plan management's responsibility to ensure benefits are being calculated properly. Further, as described in the monitoring of service organizations observation above, as the TPA administers the Plan, the controls at the TPA are highly important to the financial reporting process and failure to monitor such controls increases the risk for potential incorrect benefit payments.

Recommendation

We recommend that Plan management perform periodic retired participant review procedures. Periodically, Plan management should consider analyzing its retired participant benefit payments and records by selecting a sample of retired participants and reconciling retired participant records to benefit payments made to participants to ensure payments are eligible and accurate. We also recommend Plan management consider performing procedures to ensure the participants are appropriately reflected in the pension beneficiary records.

Management's Response

Plan management agrees with the importance of monitoring the internal control processes of third party service providers (TPAs). The Pension Services Department will perform bi-annual audits on a sample of retired participant benefit payments for accuracy and participant eligibility status. Plan management will request the TPAs to provide monthly reports on all adjustments to participant beneficiary records that would have an impact on their benefit payment or eligibility status.



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Accuracy of Fair Value of Investments

During the testwork over investments, we noted the fair value of the invested assets of two investment managers was recorded as of May 31, 2014 and was not updated to reflect the fair value as of June 30, 2014. Plan management indicated this was due to the timing of the receipt of the respective investment manager statements by the trustee, Northern Trust, which occurs on a one-month lag. However, upon receipt of the respective investment manager statements reflecting the fair value as of June 30, 2014 and prior to the preparation of the Plan's financial statements, Plan management failed to adjust the fair value causing investments to be understated.

Recommendation

We recommend that Plan management implement procedures to review and reconcile the investment manager statements to the Northern Trust trustee statements as part of the period end financial reporting process and subsequently adjust the fair value as necessary to ensure the fair value of invested assets is properly recorded as of June 30.

Management's Response

While on a monthly and annual basis, Plan management reconciles the financials to Northern Trust trustee statements, management agrees that a further review of Northern Trust trustee statements to each independent investment manager's statements should be performed by Plan management. In an effort to eliminate the current one-month lag caused by delays in the receipt of investment activity by Northern Trust from the respective investment manager, Plan management is working with each manager to potentially accelerate their reporting to the trustee.

Additionally, Plan management will require Northern Trust provide final audited investment statements (as of June 30) capturing any late adjustments to invested assets reported by each investment manager. These changes, along with a review, should result in the accurate presentation at fair value of investments as reflected in monthly and annual trustee statements provided to Plan management.

* * * * *

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments with you at any time.



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Management's written response to the deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Honorable Mayor, Members of City Council, the Audit Committee, management, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP



KPMG LLP
Suite 2000
303 Peachtree Street, N.E.
Atlanta, GA 30308-3210

December 18, 2015

Honorable Mayor, Members of City Council,
and Audit Committee Members
City of Atlanta, Georgia

Ladies and Gentlemen:

We have audited the financial statements of the City of Atlanta, Georgia (the City) as of and for the year ended June 30, 2015, and have issued our report thereon dated December 18, 2015. In planning and performing our audit of the financial statements of the City, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the City's internal control to be a material weakness:

Police Officers' and Firefighters' Pension Plans

Monitoring of Service Organizations

The City of Atlanta (City) uses outside service organizations to perform various functions for the City of Atlanta, Georgia Police Officers' and Firefighters' Pension Plans (the Plans), including



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safekeeping of assets, benefits claim processing, and record keeping. Specifically, the Plans' Third-Party Administrator (TPA) performs the calculation of the monthly pension benefit amount for each employee upon retirement, administers the process for disability and beneficiary benefits, processes benefit payments, and maintains retired participant records. Although the service organizations are charged with providing these services, Plan management remains responsible for ensuring that the internal control environment at the service organizations is sufficient to achieve the completeness and accuracy of plan administration and financial reporting.

During the audit, we noted that the City obtained a service organization audit report for its Third Party Administrator (TPA), The Zenith Group. However, the audit report covers only six months of the reporting period for the fiscal year under audit. The TPA failed to provide the bridge letter to ensure that there are no significant changes in controls during the six-month gap period. Additionally, the City did not perform any procedures to assess whether the TPA had applicable controls in place during the six-month gap period and whether these controls were operating effectively. The lack of a current service organization audit report creates potential exposure to the City for control breakdowns which could impact pension reporting and the completeness and accuracy of financial information.

Recommendation

We recommend that Plan management implement procedures that establish requirements for the receipt and documented review of service organization audit reports. These requirements should address the timing of the receipt of the reports, the period covered relative to the City's and Plans' fiscal year reporting, user control considerations, and Plan management's overall monitoring process for third party service providers. Plan management should review all service organization reports for control exceptions that impact the Plans and ensure that compensating user controls are in place to mitigate the risk of error or material misstatement to the Plans' financial statements.

Management's Response

The City agrees the Third Party Administrator (TPA) needs to provide a service organization audit report (SOC 1) to assess internal controls. The TPA did provide a SOC 1 for the period January thru June 2015. We understand the need to provide a completed SOC 1 to cover at least nine months of the Police Officers' and Firefighters' Pension Plans fiscal year. We will work with the Board and the TPA to ensure such a report is provided for fiscal year 2016.



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A significant deficiency is a deficiency, or combination of control deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City's internal control to be significant deficiencies:

Central Government

Monitoring of Capital Assets

The City has approximately \$12 billion in capital assets as of June 30, 2015. We noted deficiencies in the City's record keeping and monitoring of those assets which are summarized below:

- During our physical observation of capital assets, we noted several items that could not be traced back to the City's capital asset detail listing due to lack of sufficient detailed identifying information in the fixed assets records. For example, in certain cases, there would be multiple items exist with the same description; however, there is no serial number to trace the physical asset to the specific item in the detail.
- The City has not conducted a complete physical inventory of capital assets since 2007. Certain departments (primarily those holding assets purchased through federally funded grants) have performed inventory verification procedures of those assets, but a complete City-wide physical verification has not been performed in several years. Further, we noted there was no formally approved comprehensive policy for periodic physical inventory counts for capital assets. Management has indicated that they are in the process of contracting with an external service provider to perform a full physical inventory.
- During our testing of capital asset additions, we noted one item that was recorded as construction in progress during fiscal 2015; however, documentation could not be located to support the addition. We also noted an addition that was not timely added to the capital assets listing.
- During our review of repairs and maintenance expenses, we noted a camera system that should have been recorded as a capital asset during fiscal 2015, but rather was expensed as repairs and maintenance.

Recommendation

We recommend that the City strengthen policies and procedures around accounting for and monitoring capital assets. The process of review of capital asset additions and repairs and maintenance should be strengthened to ensure proper documentation is available for items that are related to capital asset purchases and that items that should be capitalized are not expensed. Further, a comprehensive physical inventory should be completed and updated on a periodic basis.

Management Response

The City Council has approved for the Department of Finance to enter into a contract to conduct an inventory of fixed assets throughout the City. The inventory process is expected to be completed



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in the first quarter of fiscal year 2017. A process will be put into place by March 2016 to review construction in progress, additions to fixed assets and repairs and maintenance expenditures. This will be done on a quarterly basis.

Central Government and Department of Watershed Management

Accuracy of Accrual for Accounts Payable

We continue to note improvement in the City's process of recording year end liabilities. During fiscal 2015, the City implemented a process to review vendor payments through the end of October of the subsequent fiscal year for the accrual of year-end liabilities, which has greatly improved the accuracy of recording those liabilities for financial reporting purposes. However, when we tested the City's process for review of the accruals, we noted that the reports utilized to help identify accruals were not complete and accurate. The City also generates an "on-hold" report that is utilized as a holding account for items requiring further effort in order to determine proper processing in the general ledger; however, this report was not considered in the accrual process. This resulted in understated accruals of accounts payable at year end, although in lower volume and in smaller amounts than were noted in 2014. While the total amounts in error were not material to the Comprehensive Annual Financial Report (CAFR), the underlying process continues to need additional revision.

Recommendation

We recommend the City continue to develop relevant reports to aid in the accrual process. However, those reports should be verified for completeness and accuracy and not modified from their original form. Where feasible, additional centralization of such processes, combined with enhanced education and training of personnel responsible for receiving and approving invoices, should help to improve controls in this area and result in more accurate recording of period-end liabilities.

Management's Response

Management understands the importance of accurate recording of period-end liabilities and recognizes the systematic challenges around reporting to facilitate accurate accruals. Management agrees to increase review levels for AP accrual reports including the Invoice on Hold report. Management will also focus on additional training and education across City departments to ensure more accurate recording of period-end liabilities.



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General Employees', Police Officers' and Firefighters' Pension Plans

Monitoring of Alternative Investments

As of June 30, 2015, the General Employees', Police Officers' and Firefighters' Pension Plans (the Plans) hold certain investments, which do not have readily available fair values. During our audit of alternative investments held by the Plans, we noted the following:

- Plans' management did not perform a reconciliation of the financial data provided by the Plans' investment custodian and the independent investment fund managers for the first half of fiscal year 2015.
- There was no performance of a look back analysis of the Plans' alternative investments relative to recorded fair values nor were there adequate procedures in place to review and analyze audited financial statements received for certain alternative investments which are intended to provide support for recorded fair values.

Recommendation

We recommend that Plans' management perform the following procedures in relation to alternative investments:

- Review, reconcile and consolidate the Plans' alternative investment transactions provided by the Plans' investment custodian and the third party investment managers on at least a quarterly basis.
- Strengthen procedures to review year-end audited financial statements of the investee funds supporting the fair values of its alternative investments and compare those results to the related year-end statements received from their fund manager in order to validate amounts provided by the fund managers throughout the fiscal year, including the Plans' fiscal year end.
- Develop an understanding of how the fund manager is arriving at fair values at year end to a level adequate to determine whether valuations of nonreadily marketable alternative investments are reasonable.
- Perform a benchmark analysis periodically to gauge the performance of the Plans' alternative investment portfolio against the market indices.
- Request the investment custodian and the third party investment managers to provide a service organization's Type II audit report at least annually to monitor internal controls at the investment custodian and the investment managers to ensure they have proper controls in place to ensure completeness and accuracy of the Plan's investment data.

Management's Response

City of Atlanta agrees with the finding on reconciliation of the financial data with investment custodian and the independent investment fund managers. The City realizes the critical nature of



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this reconciliation and the impact on its financials and completed this reconciliation for quarters ending March and June 2015. We also agree on the analysis required on alternative investments as it relates to correct recording of fair value of these investments in the Pension books.

City is in agreement with the recommendations on procedures required to monitor and analyze the fair value of alternative investments to ensure completeness and accuracy of the Plans' investment data. City commits to increased communication with fund managers to obtain benchmark analysis reports, and audited financial statements of investee funds to verify the reasonableness of the fair values at year end.

General Employees' Pension Plan

Eligibility of Plan Participants

During our audit procedures, we noted one participant in the General Employees' Pension Plan (GEPP), out of a sample of 60 participants tested, who was inadvertently allowed to participate in the GEPP while the employee should have been included in the City's defined contribution plan based on the employee's pay grade. Failure to appropriately include or exclude employees based on the plan's provisions represents a failure to operate the GEPP in accordance with the plan document and could present an issue for plan tax qualification status.

Recommendation

We recommend that GEPP management perform procedures to verify participant eligibility before an employee is allowed to make contributions to the plan. Additionally, we recommend GEPP management periodically review the plan's active participants on a sample basis to verify whether the participant data is consistent with the pension beneficiary records and to update the plan's active participants when the existing participants no longer meet the plan's eligibility requirements to participate.

Management's Response

City of Atlanta agrees with this finding. Pension Services conducts quarterly audits for all new hires to ensure the appropriate pension assignment was made by HR and Payroll during the onboarding process. There are system enhancements that will be made during the Oracle HR Module upgrade that will eliminate any potential error for new employee's pension assignment during the benefits and pension enrollment process. In addition, annual audits will be conducted on active employees to determine participant data is consistent with pension beneficiary records. Active employee's pension eligibility status should not change with a position change as long as the employee is still in a full-time benefit earning position.

Accuracy of Census Data for Active Participants

On an annual basis, an actuarial valuation is performed by Segal Consulting Services Inc. (the Actuary) to determine the City's total pension liability, or actuarial present value of accumulated plan benefits, and minimum required contribution related to the Plan. The Actuary provides valuation services for both the Atlanta Public Schools (APS) pension plan and City of



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Atlanta General Employees' Pension Plan (GEPP). The Actuary uses census data originated from the City but provided by each Plans' third party administrator (TPA) to perform the valuation using actuarial assumptions. The census data is comprised of information such as date of birth, date of hire or years of service, marital status, and eligible compensation. During our testing of census data, we noted 3 participants, from a sample of 65, in which the annual earnings and pensionable pay amount reported in the census data did not agree to the payroll support. We also noted discrepancies between information for a retiree provided to the actuary and the information the TPA has on file.

Recommendation

Given the significance of the census data in the actuarial valuations required under the new pension accounting standards, GEPP management's controls over significant elements of census data received from the City is of heightened importance. We recommend that GEPP management enhance its procedures to monitor the completeness and accuracy of the census data that is being reported to the TPA from the City. These procedures should include validating key data elements reported to the TPA to ensure the contributions and the other valuation inputs submitted are accurate and complete. We also recommend that GEPP management consider reconciling the census data provided to the Actuary by the TPA to their records prior to the valuation being performed by the Actuary. Plan management should consider the assessed level of risk of error when determining the extent and frequency of verification procedures performed. We believe these additional procedures will enhance the integrity of the data provided to the Plan's Actuary for the calculation of the net pension liability.

Management's Response

The City agrees with the recommendation to develop administrative procedures that will validate key data elements reported to the TPA to ensure the contributions and the other valuation inputs submitted are accurate and complete. The process will include a reconciliation and review of the census data provided to the Actuary by the TPA to ensure the integrity of the data provided by the Actuary, as well as a review of the active census data by the City.

Although not considered to be significant deficiencies or material weaknesses, we also noted the following items during our audit which we would like to bring to your attention:

Central Government

Revenue

The City has a number of aged contracts with businesses throughout the City. During our testing of revenue, we noted contracts that were over 15 years old that had not been updated with current contract terms and amounts. We further noted that the City carries accounts receivable for pass-through taxes that have been determined to be uncollectible by Fulton County (typically over 7 years old), and there is not a reconciliation of the differences between Fulton County and the City.



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Recommendation

We recommend the City perform a thorough review of all contracts to ensure contracts are current and include current terms and rates to ensure the City is properly billing for amounts it is due. Further, accounts receivable for pass-through taxes should be reviewed and fully reconciled to determine the underlying causes of differences, and to determine if items should be brought to City Council for approval to write off, rather than just increasing the reserve for uncollectible accounts.

Management Response

The City agrees with the recommendation that we should review all contracts to ensure contracts are current and include current terms and rates to ensure the City is properly billing for amounts it is due. A full and proper process review will occur by the end of second quarter of FY17 to include partnering City departments engaged in the contracting process.

Furthermore, the City agrees that accounts receivable for pass-through taxes should be reviewed and fully reconciled to determine the underlying causes of differences. The Department of Finance will discontinue the practice of increasing the reserve for uncollectible accounts. Instead, if necessary, items will be brought to the City Council for approval. An annual reconciliation of accounts receivable for pass through taxes will occur by the end of 3rd quarter of each calendar year.

Monitoring of Alternative Investments

As of June 30, 2015, the Deferred Contribution plan (DC plan) held certain investments, which do not have readily available fair values. During our audit of alternative investments held by the DC plan, we noted management did not perform a reconciliation of the financial data provided by the DC plan's investment custodian and the independent investment fund managers. Further, detailed statements of the investment holdings are not being received by the management to enable proper review for completeness and accuracy of recorded amounts.

Recommendation

We recommend that management perform the following procedures in relation to alternative investments:

- Review, reconcile and consolidate the DC plan's alternative investment transactions provided by the DC plan's investment custodian and the third party investment managers on at least a quarterly basis.
- Strengthen procedures to review year-end audited financial statements of the investee funds supporting the fair values of its alternative investments and compare those results to the related year-end statements received from their fund manager in order to validate amounts provided by the fund managers throughout the fiscal year, including the DC plan's fiscal year end.



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- Develop an understanding of how the fund manager is arriving at fair values at year end to a level adequate to determine whether valuations of nonreadily marketable alternative investments are reasonable.

Request the investment custodian and the third party investment managers to provide a service organization's Type II audit report at least annually to monitor internal controls at the investment custodian and the investment managers to ensure they have proper controls in place to ensure completeness and accuracy of the DC plan's investment data.

Management's Response

City of Atlanta receives monthly financial statements from the investment custodian listing the investment balances by individual funds and reconciles the DC plan investment balances to those monthly financial statements. Management agrees that City should identify underlying alternative investments and reconcile to the DC plan's investment custodian and the third party investment managers' financials on a quarterly basis.

City further agrees to develop an understanding of the fair values at year end and to the extent possible, obtain year-end audited financial statements and service organization's Type II audit reports from investment custodian and third party investment managers. City will review year-end audited financial statements of fund managers to ensure completeness and accuracy of DC plan's investment data.

Completeness and Accuracy of the Schedule of Expenditures of Federal Awards

The City expended approximately \$71 million in federal expenditures in fiscal 2015. During our audit, we noted that the City's Department of Watershed had a grant that had not been included in the Schedule of Expenditures of Federal Awards (SEFA) for several years. Due to decentralization of the grants process, those responsible for gathering the information required to prepare the SEFA were not aware of the awards. We noted that the individual departments with oversight responsibility for each government grant submit the information required to prepare the SEFA to the City's Grants manager; however, there is not an adequate management level review performed on the data to ensure all grants are reported.

Recommendation

We recommend that the City implement a more centralized approach to tracking all of the federal grants and related activity that flow through the City. A more centralized approach with regard to tracking of grants would help to ensure that all grants are being monitored and aid in ensuring proper presentation of the SEFA. It might also be helpful to have each department receiving federal grants to reconcile the amounts on their general ledger to what is presented in the Schedule of Expenditures of Federal Awards in order to support the central reconciliation that is performed.



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Management's Response

The City concurs with this finding. Procedures has been established whereby the Department of Watershed Management will work closely with the Grants Accounting staff to ensure all grants are properly managed, accounted for and reported.

Accuracy of Other Post-Employment Benefits (OPEB) Underlying Data

The City provided the census data to the actuary for the OPEB liability valuation. During our testing of the OPEB liability valuation, we noted an error related to prior year in which some employees who had been terminated were incorrectly included in the census data, which resulted in a \$6.7 million overstatement of the OPEB liability on the government wide financial statements.

Recommendation

We recommend the City employ a more robust review of the detail provided to the actuary for the calculation of the OPEB liability. Specifically, the review should ensure terminated employees are not included in the census data. These measures will better ensure accuracy of the estimated OPEB obligation.

Management's Response

The City agrees with the need to have accurate census data provided to the actuary. Due to the constant change in census data, the actuary can only provide an estimated OPEB liability, based on the fact that the census data is provided as a result of a specific date and time. Due to the constant changes in the City's census data with daily additions, terminations and employment status changes for both active and retired employees, the data used by the actuary, will be reviewed as part of the reconciliation process prior to providing the data to the actuary. The City will coordinate with the various providers to develop a process to pull the data for active employees and not to be inclusive of employees who are "laggards" after departure from the City. The "laggards" are those employees who have recently left employment, but are still having benefits being paid out. There may also be instances of employees receiving medical benefits while using accrued vacation time after leaving the City. Such employees could be reflected as active.

Review of Information Provided to Actuaries for Self-Insured Liabilities

The City provides information to its consulting actuaries in order to develop the liability amounts for self-insured liabilities for worker's compensation and employee medical claims. Currently, the City has not prepared a formalized reconciliation of those amounts to the activity recorded throughout the year on the general ledger.

Recommendation

Preparing a formalized reconciliation of such amounts will better document the approach to ensuring the completeness and accuracy of the amounts ultimately recorded for these liabilities.

Management's Response



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The City has an internal reconciliation process for the self-insured liabilities that are paid monthly. This internal process will be formalized to ensure Employee Benefits monthly posting in the general ledger is accurate through quarterly audits rather than the current process that reviews the general ledger annually. Due to the potential changes in self-insured liabilities that may be required as a result of vendor payment and claims audits, the general ledger is subject to changes involving the self-insured liabilities.

Department of Watershed Management

Financial Reporting

The Comprehensive Annual Financial Report (CAFR) is the Department of Watershed Management's (the Department) official document which consists of management's representations concerning the finances of the Department. We noted certain matters in the Department's process of preparing the CAFR which are summarized below:

- Management uses a revenue report to aid in recording of accruals in the financial reporting process. Management should strengthen their review of this report to include ensuring the correct parameters are used to generate the report.
- As new debt was issued during fiscal 2015, there was no formal review to assess the appropriate accounting treatment surrounding these new debt transactions that involve technical accounting topics. Specifically, we noted errors in the Department's calculation of the fiscal 2015 loss on refunding and the 2015 presentation of previously existing derivative instrument activity impacted by the current year debt transaction.

Recommendation

While noticeable improvement has been noted within the Department's financial reporting process year-over-year, further opportunities for streamlining and enhancing CAFR preparation and review procedures exist. We recommend that the Department formalize its review of system reports to include the parameters used in the generation of the report. Further, as new debt is issued, a formalized review of the accounting for the related debt transactions should be performed. Implementation of these enhanced procedures should result in more accurate presentation of key amounts within the CAFR.

Management Response

The Department will work with its IT Office to improve the reporting document generated from the system to reduce the manual modifications required to finalize the accrual report. The Department will also work closer with the Department of Finance during their review of the accounting treatment of debt and other financial transactions related to the Department.



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Department of Watershed Management

Capital Assets

The Department has not conducted a complete physical inventory of its capital assets since 2007.

Recommendation

We understand that the Department is currently working with the central city government on establishing and implementing a new capital asset policy which will set forth, among other things, policy around tracking and monitoring of capital assets including periodic physical inventory requirements. We recommend that the Department approve and implement its new formalized capital asset policy as soon as practicable.

Management Response

The City Council has approved for the Department of Finance to enter into a contract to conduct an inventory of fixed assets throughout the City. The inventory process is expected to be completed in the first quarter of fiscal year 2017. A process will be put into place during the third quarter of fiscal year 2016 to review construction in progress, additions to fixed assets and repairs and maintenance expenditures. This will be done on a quarterly basis.

Central, Department of Aviation and Department of Watershed Management

Information Technology- Access to Programs and Data

User Access

We noted the City implemented a process during the year for timely removal of terminated employees. However, for the Kronos application, we noted 8 retired users and 20 terminated users for which access had not been disabled timely. Further, there was no review of active users for Windows active directory.

For the Department of Watershed Management's EnQuesta Application, we noted two third-party contractors were given system level administrative super-user access; however such access was not timely removed subsequent to the third-party contractors' need for access.

Recommendation

Due to the significance of the IT systems within the City, we recommend IT continue to refine its processes and procedures to effectively identify and remove user access for users that have left the City. This is an important process to avoid inappropriate access or unauthorized transactions on key financial accounts or operational activities. IT should enable account logging for all terminated users that require active system accounts after termination and have access to input or edit transactions to key financial or operational activities. Further, management should review access granted to third-part contractors to ensure appropriate access is removed timely.



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Management's Response

The City agrees with the Kronos finding. Atlanta Information Management (AIM) currently performs semi-annual user access level reviews for Kronos time keepers. The Kronos/Oracle interface utilizes a demographic file transfer to update the status of employee accounts. However, there are some circumstances where the demographic file transfer process will not update Kronos of a terminated/retired user. In order to identify these accounts for remediation, we will:

Short-term:

- *Increase the frequency of the existing Oracle Terminated/Retiree report from bi-weekly to weekly. (Target Date: Q3 FY16).*
- *Continue to utilize the existing quarterly Oracle Terminated/Retiree report as a 2nd tier quality control check point. (Target Date: current).*
- *Expand the semi-annual user access reviews to include ALL users' statuses versus just time keepers. This provides a 3rd tier quality control check point. (Target Date: Q3 FY16).*
- *Utilize the AIM Executive Performance Roundtable to monitor the timely completion of afore- mentioned reviews. (Target Date: current).*

Long-term:

Implement an Identify Management application - The short-term methods listed above are all manual processes and subject to human error. The most effective approach is to implement an Identify Management solution which will automate the activation or deactivation of all accounts across all critical applications simultaneously. (Target Date: Q3 FY17).

The City agrees with the Active Directory finding. As reflected in the above actions, all audit related user access review commitments are now monitored and reviewed at the executive level in order to improve accountability and compliance for Active Directory and related systems.

Short-term:

- *Continue to follow the manual processes outlined above in the Kronos response. (Target Date: current).*
- *Automate the synchronization of Active Directory and Oracle as an interim step to the Long-term solution, which is the implementation of an Identify Management solution. This will address the majority of the accounts that require termination. (Target Date: Q4 FY16).*

For the Department of Watershed Management's EnQuesta Application, we noted two third-party contractors were given system level administrative super-user access; however such access was not timely removed subsequent to the third-party contractors' need for access.



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The City partially agrees with the EnQuesta finding. The vendor System and Software (S&S), is the primary system administrator for the EnQuesta application, providing ongoing contractual support and maintenance throughout the year. System level super user admin access is required to perform these functions. Access is controlled and granted by Watershed IT staff ONLY when necessary and the same access is automatically terminated 24 hours after any required support is completed. Following the implementation of a new version in January 2015, the vendor needed frequent access in order to complete additional phases of the project, which would require our IT group providing vendor access for durations exceeding the usual 24 hour period. For these reasons we partially agree access is not removed timely since the access termination process is automated, but was overwritten for project purposes.

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments with you at any time.

Management's written responses to the deficiencies identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of the Honorable Mayor of the City of Atlanta, Members of City Council, the Audit Committee, management, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP