



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

June 30, 2006

Honorable Ron Littlefield
Mayor, City of Chattanooga
City Hall
Chattanooga, TN 37402

RE: Traffic Operations Electrical Shop Inventory Process, Audit 06-04

Dear Mayor Littlefield:

Attached is the Internal Audit report on the Traffic Operations Electrical Shop Inventory Process.

The Traffic Operations Division of the Public Works Department has already taken positive actions in response to our recommendations. We thank the management and staff of the Traffic Operations Division for their cooperation and assistance during this audit.

Sincerely,

Stanley L. Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Steve Leach, Public Works Administrator
Daisy Madison, Chief Financial Officer
William Brewer, Director Traffic Operations

**PUBLIC WORKS DEPARTMENT
TRAFFIC OPERATIONS ELECTRICAL SHOP INVENTORY
AUDIT 06-04
June 21, 2006**

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AUDIT 06-04**



Auditor



Director

**PUBLIC WORKS DEPARTMENT
TRAFFIC OPERATIONS ELECTRICAL SHOP INVENTORY
AUDIT 06-04**

INTRODUCTION

The Traffic Operations Division of the Public Works Department installs and maintains traffic signs, traffic signals, parking meters, and pavement markings. The subject of this audit is the Electrical Shop section of Traffic Operations. Specifically, we reviewed the procurement process for raw materials inventory, the handling and accounting of those materials while in process, and the handling of finished goods inventory. The Electrical Shop is responsible for the maintenance of all the traffic signals used throughout the City. They keep an inventory of raw materials used for the creation and maintenance of the signals.

STATEMENT OF OBJECTIVES

The audit was conducted to determine if the City's assets were being properly safeguarded and accounted for. The objectives of this audit were to:

1. Determine that the process of procurement was being followed per City policy;
2. Determine that inventory adjustments made are handled properly and authorized;
3. Ensure inventory items are secured and safeguarded; and to
4. Ensure inventory items are properly applied to jobs/costs.

STATEMENT OF SCOPE

Internal Audit staff reviewed relevant City Policies, procurement and inventory related documents, conducted interviews, and made on-site inspections to verify the process by which raw materials are ordered and received, the process by which adjustments are made, and to determine how the inventory count is maintained and verified. The audit period was from July 01, 2005 through March 31, 2006.

STATEMENT OF METHODOLOGY

Internal Audit staff reviewed the City's Purchasing Policy, talked with Purchasing Department staff, reviewed accounting records from the BANNER system, which is the City's Accounting software, reviewed all purchase documents, order documents, and receipts, and made on-site visits to the Electrical shop to obtain a working knowledge of the operation of the shop and the steps taken by staff in receiving and charging out goods. Shop staff also went through a sample order to assist in the determination of adequate controls with purchases. Original records, as well as copies, were used as evidence and verified through physical examination. Tests of records revealed that all purchases were made by purchase card.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. The Department appears to be following proper procedures in the ordering of raw materials, however there are weaknesses in the use of the City's Purchase Card for raw materials;
2. There are weaknesses in the inventory adjustment process;
3. There are weaknesses in the security of the raw materials inventory;
4. There are weaknesses in the charging of inventory to the proper jobs per the work orders.

Before we completed our audit, the Division had already implemented some of the recommendations made by Internal Audit. While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Electrical Shop Section, they do present risks that can be more effectively controlled.

INVENTORY SYSTEM ISSUES

City Code Section 2-5 requires "Each department and agency of the city, under the supervision of the city finance officer, shall keep a perpetual inventory of the city property under its control..." City Code section 2-505 requires the city finance officer to "...establish the city accounting procedure in such a way that his accounts will show...all transactions affecting the acquisition, custody, and disposition of assets." City Code Section 2-504 states "The city finance officer shall supervise and have charge of the keeping of all accounts and financial records for every department and agency of the city...."

The system used by the Electrical shop is limited to providing a listing of what is on hand at a given time. There is no method available to verify orders entered into the system, nor is there any way to track what is taken out of inventory. The documents used by the Electrical shop to “record an order” or “record a completed order” are thrown away after the new numbers are put into the system. There is no interaction between the BANNER accounting system (or any other city-wide system) and the Electrical shop inventory system. It is not possible to review or analyze inventory transactions. Materials are taken from the shop and put on the service trucks with no documentation as to what or how many were removed from inventory. This causes problems with billing the departments properly for materials used from inventory.

RECOMMENDATION 1

Under the supervision of the city finance officer, the department should implement a perpetual inventory system capable of tracking all transactions that occur. Low cost software packages are available “off the shelf” that provide sufficient transaction detail along with an easy user interface, at a minimal cost. Also, the materials on the service trucks should be inventoried, possibly as a new location, until they are charged out to a job.

AUDITEE RESPONSE

We concur with comments: Public Works has an excellent work order system (City Works) currently in use at Traffic Operations that enables us to track the use of finished materials in each work order completed. An additional module of City Works (Store Room) has the capability of tracking raw materials from purchase to use in finished products. We are prepared to purchase Store Room for both MBWWTP and other PW divisions. However, this is on hold pending the City’s decision to purchase a more comprehensive software package for Finance/Personnel that may include a program similar to Store Room.

AUDITEE RESPONSE (FINANCE OFFICER)

We concur. The City is in the process of purchasing a comprehensive software system that will include an inventory module integrated with finance. Until that time, we are looking into the feasibility of using existing software (RTA and BIC) being used by fleet management and other areas in the Public Works Department for better inventory tracking.

RECOMMENDATION 2

No documents generated throughout the process from procurement of raw materials to the issuance of a final product should be destroyed. The city enacted Resolution 23576, adopted 10/29/2002, which adopted the record retention policy for municipalities developed by MTAS. All documents should be retained according to those guidelines. The City Finance Officer should establish procedures to ensure compliance with the City's records retention policies.

AUDITEE RESPONSE

We concur. All documents will be retained as required.

AUDITEE RESPONSE (FINANCE OFFICER)

We concur. "Records Management for Municipal Governments" issued by MTAS has been placed on the City's intranet site. All departments have been advised of the requirements to follow these guidelines and their availability on the intranet.

INVENTORY ADJUSTMENTS

When an actual count is made, an adjustment is being made to the database listing in the system. There is no authorization for this adjustment (no supervisory review), there is no detail showing the amount of the adjustment, and there is not a documented justification for the adjustment.

RECOMMENDATION 3

All adjustments made to the inventory listing should be authorized prior to the adjustment being made. There should be kept on file: the documentation detailing the amount of the adjustment, supervisory review, and the reason for the adjustment.

AUDITEE RESPONSE

We concur. We have already put in place a new form to handle these adjustments.

RECEIVING MATERIALS

Materials are received by more than one person. The person responsible for posting the materials does not always do so in a timely manner. Also, when goods are purchased with the City purchase card, the credit card form and the detailed receipt are not always attached, as required by policy. However, since the implementation of the revised Purchase Card Policy (09/15/05, 02/07/06), the requirements are being met.

RECOMMENDATION 4

All goods received should be posted into the system upon receipt. Also, all purchases made by purchase card should have detailed receipts which include the reason for the purchase and by whom the purchase is made, per the purchase card policy.

AUDITEE RESPONSE

We concur. All goods will be posted promptly; all purchase card transactions will have required documentation.

INVENTORY SECURITY

The inventory of raw materials is scattered over a vast area. Some of the raw materials are under video surveillance in Traffic Operations , some are in the Tool Room building, some items are on the service trucks, and some are out in the open (in the Yards area).

RECOMMENDATION 5

All inventories should be maintained in a secured central area.

AUDITEE RESPONSE

We concur. However, due to space limitations, it is impossible to have all inventories in one place. We will make every effort to secure inventory given limitations of space and resources. To fully secure all inventories will require additional land and/or facilities, as well as a dedicated employee to manage disbursements of finished products.