



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

June 20, 2011

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Post Audit Review of Moccasin Bend Inventory Process, Audit 10-03

Dear Mayor Littlefield and Council Members:

On December 1, 2010, the Internal Audit Division released an audit on the Moccasin Bend inventory process. We performed certain procedures, as enumerated below, with respect to activities of the Public Works Department-Interceptor Sewer System (PW-ISS) in order to render a conclusion on the status of the recommendations made as a result of that audit.

This Post Audit Review consisted principally of inquiries of City personnel and test counts of inventory. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards.

The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

The conclusions of Audit 10-03 were that:

1. The inventory is acquired utilizing the City's procurement policies/procedures.
2. All inventory adjustments made are not properly documented and authorized.
3. All inventory items appear to be adequately secured and safeguarded.

4. A perpetual inventory system is in place. However, there are weaknesses present in the system that require improvement to the internal controls surrounding the inventory system.

The audit contained six (6) recommendations that addressed the audit's findings. Based on the review performed, we concluded three were fully implemented and three were partially implemented.

Recommendations Implemented [1,2,3]

We recommended (**Recommendation 1**) that the Public Works-Interceptor Sewer System (PW-ISS) implement procedures to help prevent inventory discrepancies from occurring and to correct any discrepancies prior to fiscal year end.

Per discussions with PW-ISS staff, policies and procedures have been implemented specifying actions to be taken related to handling and issuing inventory and tools, as well as issuing parts related to repair orders. A sample of work orders was tested. Additionally, new reporting from the accounting system combines information previously contained on several reports to allow easier inventory tracking. Recently corrected system problems prevented proper inventory tracking until June 2011.

We recommended (**Recommendation 2**) that PW-ISS Management take steps to ensure completed work orders include signatures of both the supervisor and employee(s) responsible for completing the work prior to the work order being closed.

The process has been changed to require the requesting employee complete a work order, with supervisor approval at the time work is to commence. The approved work order is presented to the PW-ISS warehouse and parts are issued based on these signatures. Inventory personnel do not have access to the work order after that point.

We recommended (**Recommendation 3**) that PW-ISS Management immediately implement a process/procedure that provides an adequate audit trail to document the specific employee(s) receiving inventory items each time an item is removed from the warehouse. We recommended inventory receipts be issued and retained to document all inventory disbursements.

A spreadsheet has been created and implemented requiring the signature of any person receiving inventory from the warehouse. Price quotes have been taken for a system enabling electronic signature, with the signature being appended to the appropriate work order, making the entire process electronic.

Recommendations Partially Implemented [4,5,6]

We recommended (**Recommendation 4**) PW-ISS Management implement improvements to the inventory handling process. Suggested improvements included tagging all items upon receipt, scanning of all items leaving the inventory enclosure to an authorized work order and segregation of all obsolete items with removal to surplus immediately after being scanned out of the regular inventory account. Ultimately, any manual adjustments should be approved by the Director of Waste Resources after a diligent investigation.

Per discussion with PW-ISS staff and a test sample, PW-ISS inventory personnel now tag and record all new items received into inventory, and all items leaving inventory are scanned to an open, approved work order.

Per PW-ISS personnel, all manual adjustments are being addressed though approval of inventory differences discovered during cycle counts. The Inventory Coordinator reviews changes in inventory quantities and investigates major differences, approving the changes when any questions she has are answered. However, no documentation of steps taken to investigate are retained. No warehouse personnel have the capability of approving adjustments to inventory.

Obsolete material is currently segregated at the time it is deemed not to be useful in the future. See our discussion below related to Recommendation 6.

We recommended (**Recommendation 5**) PW-ISS place inventory tags on and properly account for all inventory stored at the Moccasin Bend inventory warehouse.

PW-ISS inventory personnel implemented a policy shortly after release of the audit to tag and enter all new items received into inventory. Currently, inventory bins contain some untagged parts. Steady improvement has been made in reducing untagged items during the six weeks of our post-audit review. PW-ISS management asserts all items will be tagged prior to June 30, 2011. PW-ISS staff is currently entering/correcting inventory data. PW-ISS plans to have all items, quantities and locations entered into the system at June 30, 2011.

We recommended (**Recommendation 6**) PW-ISS Management immediately implement a policy/procedure requiring the Director of Waste Resources to approve in writing all transfers from regular inventory to obsolete inventory to provide adequate supporting documentation related to inventory obsolescence. We also recommended inventory be transferred to the Purchasing Department as soon as it is declared obsolete.

PW-ISS has implemented a policy followed for each item sent to surplus. Department supervisors sign a form requesting specific parts be taken into surplus. The form contains the following information - description, make/model/serial number, inventory tag number, estimated value and year purchased. The form is approved by the Inventory Coordinator, not the Director of Waste Resources, as recommended. The form will be signed by the representative of General Services upon pickup. Surplus items are segregated from inventory items. General Services was informed December 30, 2010 that two pallets of surplus items were shrink wrapped and ready for removal. The pallets have not been removed by General Services, and currently are on the dock of the warehouse.

We thank the personnel in the Public Works – Interceptor Sewer System Department for their assistance in conducting this review. We will consider this report to be final unless directed to continue our review.

Sincerely,



Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Audit Committee
Steve Leach, Administrator, Public Works
Jerry Stewart, Director, Waste Resources Division
Daisy Madison, City Finance Officer