

January 3, 2007

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

RE: Post Audit Review of Traffic Operations Sign Shop Inventory; 06-03

Dear Mayor Littlefield:

On May 15, 2006, the Internal Audit Division released an audit on the Traffic Operations Sign Shop. We performed certain procedures, as enumerated below, with respect to activities of the Public Works Department 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 examinations of various supporting documentation. 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 06-03 were 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 material inventory;
4. The department appears to be charging inventory to the proper jobs; per the work orders.

The audit contained 5 recommendations that addressed the audit's findings. Based on the review performed, we concluded that recommendations 1 through 4 were fully implemented, and recommendation 5 was partially implemented.

Recommendations Fully Implemented

We recommended (Recommendation 1) that under the supervision of the City Finance Officer, the department should implement a perpetual inventory system capable of tracking all transactions that occur.

The department concurred. Per the advice of the Finance Officer, the department installed the "BIC" system, which is presently being used by the Tool Room.

We recommended (Recommendation 2) that 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.

The department concurred. All documents are now being retained per the MTAS Guidelines for document retention.

We recommended (Recommendation 3) that 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.

The department concurred and has already created a new form for making such adjustments. They are being kept on file. The file was reviewed during this Post Audit Review.

We recommended (Recommendation 4) that all receipts for goods received should have the packing slip signed by the recipient to verify that all goods ordered have been received. Also, all purchases made using the City's 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.

The department concurred and has already implemented a new policy that all receipts are to be signed by the recipient and the director, along with a stamp as to who it is for, where it is going and why it was ordered, per the Purchase Card Policy. A review of a purchase card packet revealed that the proper signatures and other required data was present.

Recommendations Partially Implemented

We recommended (Recommendation 5) that all inventories should be maintained in a secured area.

The department concurred. However, due to space limitations, they stated it was impossible to have all inventory items in one place. They have added another camera to cover the back loading dock, but with limited budget dollars, it is almost impossible to fully secure the inventory.

We thank the personnel in the Traffic Operations 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
Steve Leach, Public Works Administrator
William Brewer, Director of Traffic Operations
Daisy Madison, Chief Financial Officer
Brian Smart, Manager of Financial Operations