



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

August 26, 2011

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Capital Projects Donations, Audit 11-03

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Capital Projects Donations, Audit 11-03.

We thank the management and staff of the Public Works Department for their cooperation and assistance during this audit. We would like to acknowledge they have already developed a draft comprehensive policy to address all findings identified in our report.

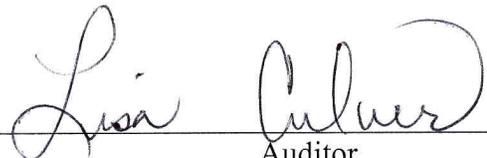
Sincerely,

Stan Sewell, CPA, CGFM
Director of Internal Audit

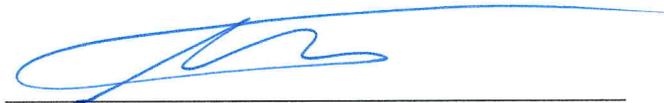
cc: Dan Johnson, Chief of Staff
Steve Leach, Public Works Administrator
Dennis Malone, Assistant City Engineer
Audit Committee Members

**PUBLIC WORKS
CAPITAL PROJECT DONATIONS
AUDIT 11-03
JULY 18, 2011**

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Auditor



Audit Director

**PUBLIC WORKS
CAPITAL PROJECT DONATIONS
AUDIT 11-03**

INTRODUCTION

The City's Engineering Division, along with the Traffic Engineering Division, work with companies or organizations who propose projects to the City that are beneficial to both parties. As a part of the project, the entity will contribute funds to the City, and in exchange the City will provide equipment or labor to the project. The City also receives grants from organizations for projects such as Lyndhurst for streetscaping or Urban Forestry projects. Traditionally, these contributions are presented to Council as a donation to the City.

The City has partnered with companies such as Unum, CSX, and U.S. Express to see these projects completed, and improvements made to the City. These projects have included new traffic signals, pedestrian lights, and road improvements.

STATISTICS

Capital Fund Projects listed in the 2011 CABR

<u>ENTITY</u>	<u>AMOUNT</u>
TVA Capital Contribution	\$ 35,000
Lyndhurst Foundation	\$ 240,000
Chattanooga Neighborhood Enterprise	\$ 8,000
Adman Electric	\$ 15,324
Museum Bluff Condos	\$ 22,737
UNUM	\$ 91,954

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2011 Audit Agenda. The objectives of this audit were to determine if:

1. The Public Works divisions are properly handling and processing capital project contributions.
2. The divisions have adequate written policies and procedures for handling contributions to capital projects.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit period covers the transactions in capital donations/contributions accounts (Oracle) for the Public Works Department from January 1, 2010 to June 30, 2011.

STATEMENT OF METHODOLOGY

During the audit, interviews were performed with staff from the Engineering, Traffic Engineering, and Urban Forestry divisions of Public Works to gain an understanding of their processes for handling capital contributions and donations. All capital contribution/donations revenue transactions were reviewed for the Public Works Department from January 1, 2010 to June 30, 2010. The review included verification that collection reports were adequately prepared and supported. The process followed by the Public Works Department for handling contributions and donations was reviewed to determine if applicable City and State laws were being followed. Original records, as well as, copies were used as evidence and verified through physical examination.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

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

1. The Public Works divisions do not consistently administer and process capital contributions properly.
2. The Public Works divisions currently do not have written procedures and policies to address issues regarding capital contributions or donations.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Public Works department, they do present risks that can be more effectively controlled.

CONTRACTS NOT ALWAYS DEVELOPED

Divisions of the Public Works Department such as Engineering and Traffic Engineering provide services to entities and receive capital contributions in return for labor or equipment they provide. These projects are a win for the City because the private entity is helping by

providing funds to complete a capital project such as streetscaping, road work, or installation of traffic signals.

When reviewing capital projects contributions, it was evident written contracts were not always developed to cover the terms of the project and the contribution amount from the entity. Without a written contract, the City has no recourse with the entity if they fail to submit their monetary contribution for the project. According to the City Attorney, and the Internal Control and Compliance Manual for Tennessee Municipalities, any time the City provides such services, a written contract is required regardless of whether payment is involved. Additionally, all contracts must be presented to Council.

RECOMMENDATION 1

We recommend management obtain written contracts that outline services to be performed, and all aspects related to projects, prior to incurring any expense or providing any services. Further, we recommend copies be provided to City Council and the City Finance Officer as required by law.

AUDITEE RESPONSE

To correct these actions, the division of Engineering is in the process of drafting a Standard Operating Procedure (SOP) and the creation of a Letter of Agreement template, to be used by divisions of Public Works and outside entities regarding work and/or services to be performed for contributions and/or donations for capital projects.

COLLECTION PROCEDURES NOT FOLLOWED

During the audit all revenue transactions for the Public Works capital contributions and donation accounts were reviewed. It was determined not all collections were remitted to the Treasurer's office as required by T.C.A 6-56-111, which states all collections must be deposited within three days of receipt. Based upon our review, the Public Works Department does not always issue receipts when receiving funds. T.C.A 9-2-103 requires a receipt to be issued any time funds are received.

RECOMMENDATION 2

We recommend Public Works staff review their collection process to ensure all funds are remitted to the Treasurer's office within three days and receipts are issued as required by State law.

AUDITEE RESPONSE

The creation of the SOP discussed above addresses this issue, in that Letters of Agreement shall be obtained and signed by both parties and sent to council for resolution. Once the resolution is approved a check from the contributing party would be collected into that specific account. Currently the collection process and the resolution approval process are

running concurrently and preventing the collection and depositing of funds against the specific account within the three day period.

WRITTEN POLICIES AND PROCEDURS NOT IN PLACE

During the audit, it was discovered that throughout the Public Works Department different divisions may collect funds from grants, contributions or donations. Interviews with Public Works employees who handle these contributions or donations indicate they do not have any specific written procedures in place to address these types of transactions.

Public Works management has not developed their own written procedures to address specific processes for handling collections of grants, contributions or donations within each area. Guidance for developing the procedures can be located in the Finance Department's collection report procedures, City and State codes as well as City resolutions regarding soliciting funds and accepting donations.

RECOMMENDATION 3

We recommend the Public Works Administration develop (or require any divisions dealing with grants, contributions, donations and solicitation of funds to develop) adequate written policies/procedures to address their specific process. These divisions include, but are not limited to, Urban Forestry, Engineering and Traffic Engineering. We suggest management consider including steps in their written procedures which would ensure funds are received from an entity before the City performs any services or makes any purchases for the project. Additionally, management should develop separate procedures providing guidance on the Public Works Week event.

Once developed, employees should have ready access to these polices/procedures (hard copy, computer based or Intranet). Each division should document receipt of such policies by each employee.

AUDITEE RESPONSE

There are no current policies or procedures in force at this time to address these types of transactions. Corrections identified in our above response will resolve this situation.