



# City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell  
Director

Ron Littlefield  
Mayor

November 18, 2011

Mayor and City Council  
City of Chattanooga  
Chattanooga, TN 37402

RE: Fleet Third Party Billing, Audit #11-09

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Third Party Billing by the Fleet Services Division.

We thank the management and staff of Fleet Services and the Finance Department for their cooperation and assistance during this audit.


Sincerely,


Stan Sewell, CPA, CGFM  
Director of Internal Audit

cc: Dan Johnson, Chief of Staff  
Audit Committee Members  
Dan Thornton, General Services Director  
Daisy Madison, Chief Finance Officer

**GENERAL SERVICES DEPARTMENT  
FLEET THIRD PARTY BILLING  
AUDIT 11-09  
SEPTEMBER 21, 2011**

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Auditor

  
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Audit Director

**FLEET THIRD PARTY BILLING  
AUDIT 11-09**

**INTRODUCTION**

The City of Chattanooga (City) contracts with twenty-one municipalities and governmental agencies to provide fuel and maintenance service for some or all of the motorized equipment used by them. These contracts/agreements specify labor rates, percentage markup of parts and fuel, methodologies for performing work, as well as payment terms.

**STATISTICS**

During the thirteen month period July 2010 – July 2011, the following amounts were billed to outside entities by Fleet Services:

Fuel	\$ 84,363
Parts and Labor	<u>599,795</u>
Total	<u>\$684,158</u>

Source: City accounting records

**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. Valid contracts/agreements exist with entities for which work is performed;
2. Billings are completed in a timely fashion;
3. Proper internal control procedures are followed during the work and billing to ensure proper charges are billed.
4. Receivables are aged, proper collection procedures are followed and appropriate follow-up performed on past due accounts;

**STATEMENT OF SCOPE**

Based on the work performed during the preliminary survey and the assessment of risk, the audit period will cover the operations of Fleet Services billing to outside entities from July 2010 to July 2011.

## **STATEMENT OF METHODOLOGY**

We reviewed agreements between the City and outside governmental entities for pertinent facts related to our audit. We met with personnel of Fleet Services to discuss expectations for the audit and obtain an understanding of their processes related to services provided to third parties. We obtained records from Fleet Services personnel, performing tests to ensure agreement terms were followed. We compared pricing used for billings to outside entities to the agreed upon cost structure in the work agreements.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the City financial systems. The City's financial system was previously determined to be reliable and no additional work was necessary.

## **STATEMENT OF AUDITING STANDARDS**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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.

## **NOTEWORTHY ACCOMPLISHMENTS**

Over the past five years, the Fleet Division, in conjunction with Finance, has reduced past due accounts receivables related to work performed by them for outside entities by 99%, to approximately \$2,000.

## **AUDIT CONCLUSIONS**

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

1. Valid contracts/agreements do not exist with entities for which work is performed;
2. Billings are performed in a timely fashion;
3. Proper internal control procedures are not always followed during the work and billing to ensure proper charges are billed; and
4. Receivables are aged, proper collection procedures are followed and appropriate follow-up performed on past due accounts.



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

### **CONTRACTS/AGREEMENTS NOT IN PLACE**

Fleet Services does not have signed agreements with all outside entities for whom they sell fuel or perform mechanical repairs to equipment. The agreements between the City and an outside entity specify the percentage markup on repair parts, standard labor rates, percentage markup on fuel, and payment terms. Two completed agreements were located, while work is currently performed for twenty-one governmental entities. Lack of a contractual agreement with these entities could result in disputes regarding markup over cost on parts, labor and fuel, as well as payment terms.

### **RECOMMENDATION 1**

We recommend that City Fleet Services, in conjunction with the legal department, procure signed agreements for all entities with whom they currently sell fuel or perform work. A copy of the agreements should be provided to the City Council, a copy kept on file in the Fleet Services offices, and in compliance with City policy, the original filed in the office of the Chief Finance Officer. We further recommend future agreements be procured prior to performing work for outside entities.

### **AUDITEE RESPONSE**

We concur.

### **FUEL IS NOT CONSISTENTLY PRICED CORRECTLY**

Historically, fuel prices have been adjusted by Fleet Services every few weeks. Fleet Services agreements allow fuel sales to outside entities to include 8% over its cost to cover handling expenses incurred by the City. Fuel prices are volatile, and changing the amount charged for fuel each few weeks could result in prices not covering overhead costs associated with fuel purchases by the City, or possibly selling fuel for less than the purchase price.

### **RECOMMENDATION 2**

We recommend the City Fleet Services update the price of fuel after each purchase, or weekly at a minimum. We further recommend the sales price be calculated using the last purchase price, or the average of the past few purchases (2-3), including federal taxes paid in the calculation.

### **AUDITEE RESPONSE**

We Concur.

### **INCORRECT FUEL BILLINGS**

Fleet Services billings for fuel should be consistent for all customers. When pricing of fuel sales was tested we discovered all fuel (gasoline) sold in a day wasn't priced consistently. A few vehicles of some customer fleets were charged pricing not consistent with other fuel purchased on the same day. This pricing inconsistency was a result of an error in the setup within the RTA system for some outside owned vehicles, causing those vehicles to bypass the global setup used for pricing to outside entities.

### **RECOMMENDATION 3**

We recommend Fleet Services immediately revisit the setup for each vehicle in the RTA system, ensuring the billing setup is correct. We also recommend billings for all vehicles are checked closely for consistent pricing going forward. Also, we recommend bi-annually the setup for all vehicles be checked, with a log showing the date of testing and the employee performing the test signing the log.

### **AUDITEE RESPONSE**

We concur.

### **INCORRECT LABOR RATES ON BILLINGS**

When labor rate charges to work orders for outside entities were tested we found the time for one employee had no labor charges for the work performed. Upon inquiry, management found the employee was not set up properly in the RTA system. When all labor rates were reviewed by Fleet Services, two other employees were found to have incorrect labor rates.

### **RECOMMENDATION 4**

We recommend Fleet Services develop procedures to ensure all employee rates to be charged for work are entered into the system properly. We further recommend a review of all billable rates in the RTA system be conducted every six months.

### **AUDITEE RESPONSE**

We concur.