



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

December 29, 2009

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Fleet Purchases, Audit 09-11

Dear Mayor Littlefield and City Council Members:

Attached is the above referenced Internal Audit report on Fleet Purchases.

We thank the General Services Department and the Finance Department for their cooperation and assistance during this audit.

Very truly yours,

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

cc: Dan Johnson, Chief of Staff
Daisy Madison, City Finance Officer
Paul Page, General Services Administrator
Artie Prichard, Purchasing Director
Brian Kiesche, Fleet Manager
Audit Committee

**GENERAL SERVICES DEPARTMENT
FLEET PURCHASES
AUDIT 09-11
November 17, 2009**

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Auditor



Director

**GENERAL SERVICES DEPARTMENT
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INTRODUCTION

Fleet is responsible for vehicle asset management for approximately 1,600 vehicles and equipment. Fleet also provides services to some additional government agencies. The Division includes two automotive repair centers with 32,400 square feet of work area and state of the art equipment as well as three fueling stations. Fleet has the ability to perform all types of repairs in the automotive industry including paint, body and reconstruction. Most of the Fleet technicians are ASE and/or EVT certified.

STATEMENT OF OBJECTIVES

The objectives of this audit are to determine if:

1. Adequate written policies/procedures are in place for the Fleet purchasing process.
2. Vehicle request forms were properly completed for Fleet purchases, if Fleet Management documented inspection of vehicles for compliance with bid specifications prior to payments being issued, and if Fleet Management properly accounted for surplus inventory that was related to new vehicle purchases.
3. All Fleet purchases over \$10,000 were made in compliance with Article V of the City Code.

STATEMENT OF SCOPE

The audit period covered Fleet Purchases during the fiscal year ending 2009 (July 01, 2008 through June 30, 2009).

STATEMENT OF METHODOLOGY

We met with management and staff from the General Services Department and Finance Department to obtain an understanding about the Fleet purchasing process. We also reviewed the City Code and State Code to obtain information about the Fleet purchasing process. Due to a small population size, we reviewed all Fleet purchases over \$10,000.00 that were made during FY09 as a part of this audit.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

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

1. Adequate written policies/procedures are not in place for the Fleet purchasing process.
2. Vehicle request forms were not always properly completed for Fleet purchases. Fleet management properly documented inspection of vehicles for compliance with bid specifications prior to payments being issued. Fleet management properly accounted for surplus inventory that was related to new vehicle purchases.
3. It does not appear that all Fleet Purchases over \$10,000 were made in compliance with Article V of the City Code.

ADEQUATE WRITTEN POLICIES/PROCEDURES NOT IN PLACE

The written policies/procedures that we received from the Fleet Division related to vehicle acquisition and replacement are very basic, and they do not provide comprehensive guidance for the fleet acquisition and disposal process. Further, it appears such written policies & procedures were never finalized (they remain in draft form).

RECOMMENDATION 1

We recommend that the General Services Department update their written policies and procedures. Employees should have ready access to the policies and procedures (hard copy, computer-based or web-based). The Department should document receipt of such policies by each employee involved in the vehicle acquisition process. These procedures should ensure proper internal controls, which include but are not limited to:

- Segregation of Duties
- Proper Authorization and Approval
- Proper Review and Reconciliation
- Proper Physical Security of Assets
- Proper Training and Supervision
- Compliance with all laws and regulations

We also recommend that the updated written policies and procedures related to vehicles be incorporated into a comprehensive written purchasing policy/procedure manual. We have recommended the development and issuance of such a comprehensive manual in multiple previous audits.

AUDITEE RESPONSE (FLEET)

Fleet Management would agree that both the circumstances and practical procedures have changed since the last fleet acquisition and disposal policy was written. Therefore the current policy/procedure needs to be updated. We are in the process of doing that now.

VEHICLE REQUEST (VR-1) FORMS NOT PROPERLY COMPLETED

Fleet utilizes a Vehicle Request Form (VR-1 Form) as the official document that City departments are required to complete in order to request a new vehicle. This form provides a section to list the information about the old vehicle that the department wants to turn in to Fleet as well as a section to list the information about the new vehicle that the department is requesting. The form also requires that the reason for the request be documented on the form, as well as a departmental authorization signature and a Fleet authorization signature that the request is valid and approved by management. Of the twenty-two (22) Fleet purchases that were selected for testing, VR-1 forms were properly completed for three (3) of the Fleet purchases. VR-1 forms were never completed for two (2) of the twenty-two (22) purchases, and VR-1 forms were partially completed for seventeen (17) of the twenty-two (22) purchases.

RECOMMENDATION 2

We recommend that Fleet management take the necessary steps to ensure that all future VR-1 forms are properly completed (all required vehicle information, all required departmental authorization signatures, etc.).

AUDITEE RESPONSE (FLEET)

The VR-1 Form was created by Fleet Management last year to help organize and analyze department requested vehicles as compared to our plan on the vehicles to be replaced. We have a goal of replacing each vehicle in the current fleet with a vehicle that obtains a higher MPG and a lower carbon emission stream while still allowing efficiency in job performance. It is merely an internal document that gives us a platform to begin discussions and negotiations with the requesting department. It does not, nor was it intended to preclude or replace the actual purchasing process in which all signatures from all authorized parties are required to sign off on. After careful review, we will eliminate the redundancy on the Fleet Management side of signatures while agreeing with Audit that the requesting department should have a division head, manager, or department head signature on the VR-1 form.

FLEET PURCHASES MADE BASED ON EXPIRED CONTRACT

Section 2-551 of the City Code requires all purchases that exceed \$10,000.00 to be approved by the City Council. Section 2-552 of the City Code requires the competitive bidding process to be utilized for purchases that exceed \$10,000.00. Section 6-56-304 of the TCA requires all purchases of new equipment be made only after public advertisement and competitive bidding. The City Council approved a \$1,600,000.00 blanket contract on January 25, 2005 to purchase sedans and light duty vehicles from Brooker Ford/Newton Chevrolet. This was a twelve (12) month contract that also included an option to extend the contract for an additional twelve (12) months. After two years elapsed, the Purchasing Department continued to purchase sedans and light duty vehicles from Brooker Ford by issuing new blanket contracts (some vehicles at increasing amounts) without rebidding the contract and obtaining council approval for a new sedan/light duty vehicle blanket contract.

RECOMMENDATION 3

We recommend that the General Services Department utilize the competitive bidding process and obtain approval from the City Council for all purchases that exceed \$10,000.00 in order to be in compliance with the City Code and the State Code.

AUDITEE RESPONSE (FLEET)

It was our understanding the contract had followed the multi year specification that was submitted. Apparently, for whatever reason, this was not the case. We will work with the purchasing department to be more diligent to insure the contract language follows the proper duration and is limited by whatever the contract duration that gets Council approval.

USED EQUIPMENT PURCHASE

TCA Section 12-3-1003 allows municipalities to purchase used equipment from for-profit corporations (without utilizing the competitive bidding process) if various protective measures are followed/complied with. It appears that Fleet purchased used equipment from Tennessee Kenworth (a for-profit corporation) during FY09 and did not utilize the competitive bidding process and did not perform the necessary due diligence requirements mandated by state law.

RECOMMENDATION 4

We recommend that the Purchasing department comply with TCA Section 12-3-1003 when purchasing used equipment from non-governmental entities in the future.

AUDITEE RESPONSE (PURCHASING)

Purchasing is complying with TCA Section 12-3-1003 for any used equipment from non-governmental entities.

AUDITOR COMMENT

We requested documentation from Fleet management to verify that the used equipment that was purchased from Tennessee Kenworth was listed in an approved publication and was within the maximum price/value threshold (as is specified in TCA 12-3-1003). Fleet management was not able to provide us with any such documentation.