

**FINANCE DEPARTMENT  
SENSITIVE EQUIPMENT POLICY  
AUDIT 09-13  
OCTOBER 29, 2009**



# City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell  
Director

Ron Littlefield  
Mayor

November 24, 2009

Mayor and City Council  
City of Chattanooga  
City Hall  
Chattanooga, TN 37402

RE: Sensitive Equipment Policy, Audit 09-13

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Sensitive Equipment Policy.

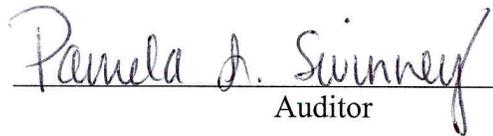
We thank the management and staff of the Finance Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM  
Director of Internal Audit

cc: Dan Johnson, Chief of Staff  
Audit Committee Members  
Daisy Madison, Administrator Finance Department

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\_\_\_\_\_  
Auditor

  
\_\_\_\_\_  
Audit Director

**FINANCE DEPARTMENT  
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**INTRODUCTION**

City Code Sec. 2-5 states “each department and agency of the city shall, under the supervision of the city finance officer, keep a perpetual inventory of the city property under its control, and shall furnish such reports in relation thereto as the city finance officer may require.” The Finance Department has written policies and procedures in place for capital assets that meet a \$5,000 capitalization threshold. However, property that meets the definition of “sensitive equipment” typically will not meet the capital asset dollar threshold and therefore, will not be covered by the capital asset policies and procedures.

The Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 23 Section 2 requires “that a record of moveable, high-risk, sensitive property, such as TVs, cameras, chainsaws, tools, lawn mowers, and small office machines, as well as furnishings and works of art, be established and maintained. An annual physical inventory should be performed and documented in the municipality’s records. All such items should be tagged or marked to identify them as municipal property immediately following the purchase of such items.” The inventory records should be retained for 5 years in accordance with Title 4 Chapter 9 of the compliance manual.

**STATEMENT OF OBJECTIVES**

This audit was conducted in accordance with the Internal Audit Division's 2009 Audit Agenda. The objectives of this audit were to determine if:

1. The City has policy and procedures governing sensitive equipment inventory.
2. City departments have an adequate system in place to safeguard sensitive equipment.

**STATEMENT OF SCOPE**

Based on the work performed during the preliminary survey and the assessment of risk, the audit will cover citywide systems related to sensitive equipment from July 1, 2008 to August 31, 2009.

## **STATEMENT OF METHODOLOGY**

We interviewed Finance Department staff to determine if any written policies and procedures were in place. We surveyed all department heads to gain an understanding of processes that may be in place by departments and divisions to track sensitive equipment inventory. We reviewed documentation and interviewed staff from several departments. In addition, we reviewed the Internal Control Compliance Manual for Tennessee Municipalities, and the Chattanooga City Code and relevant City ordinances.

## **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 test work performed and the audit findings noted below, we conclude that:

1. No City-wide policies and procedures are in place related to sensitive equipment inventory.
2. We noted four departments/divisions have developed a process to track sensitive equipment inventory. However, the majority of the departments/divisions do not appear to have any system in place to ensure proper safeguarding of City property.

## **NOTEWORTHY ACCOMPLISHMENTS**

We would like to commend the Police Department, Office of Multicultural Affairs, the Department of Neighborhood Services and the Fire Department for their initiative to develop and implement an inventory process to track sensitive equipment.

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

## **LACK OF WRITTEN POLICES/PROCEDURES**

Title 2 Chapter 1 Section 2 of the Internal Control and Compliance Manual for Tennessee Municipalities requires municipal officials to develop policies and procedures that incorporates all the policies required by said manual and the manual should include the assignment of authority and responsibility. We found that the Finance Department has no written policies and procedures in place to provide City departments guidance with sensitive equipment inventory requirements.

### **RECOMMENDATION 1**

We recommend the Finance Department issue written policies and procedures for sensitive equipment inventory. The policies and procedures should address issues of departmental responsibilities, definition and example of sensitive equipment, dollar thresholds, tagging requirements, annual physical inventory requirements, and reporting requirements.

### **AUDITEE RESPONSE**

A Sensitive Minor Equipment policy has been developed. It will be distributed to the departments and placed on the City's intranet site.

## **NO INVENTORY PROCESS IN PLACE**

City Code Section 2-5 states a perpetual inventory of all city property is the responsibility of each department and agency, under the supervision of the city finance officer. Further, the State of Tennessee compliance manual requires municipalities to maintain records of moveable, high-risk, sensitive property. All such property should be tagged and annual physical inventories should be performed and documented.

Although none address all required criteria, four departments/Divisions have implemented an inventory tracking system for sensitive equipment. However, the majority of the departments/divisions of the City have no process in place to safeguard sensitive equipment.

### **RECOMMENDATION 2**

We recommend the Finance Department supervise all departments/divisions to ensure the implementation of a sensitive equipment inventory program in accordance with the Internal Control and Compliance Manual for Tennessee Municipalities.

### **AUDITEE RESPONSE**

A sample form for the sensitive minor equipment inventory list has been developed and will be distributed to the departments for completion. An annual timeframe has been determined for requesting the information from the departments.