



# City of Chattanooga

Stan Sewell  
Director

INTERNAL AUDIT  
City Hall  
Chattanooga, Tennessee 37402

Ron Littlefield  
Mayor

April 16, 2010

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

RE: Professional Services Contracts, Audit 09-19

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Professional Services Contracts.

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

Sincerely,

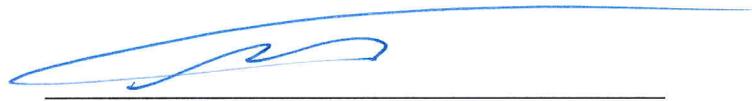
Stan Sewell, CPA, CGFM  
Director of Internal Audit

cc: Dan Johnson, Chief of Staff  
Audit Committee Members  
Daisy Madison, City Finance Officer

**FINANCE DEPARTMENT  
PROFESSIONAL SERVICES CONTRACTS  
AUDIT 09-19  
MARCH 12, 2010**

**FINANCE DEPARTMENT  
PROFESSIONAL SERVICES CONTRACTS  
AUDIT 09-19  
MARCH 12, 2010**

  
\_\_\_\_\_  
Auditor

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

**FINANCE DEPARTMENT  
PROFESSIONAL SERVICES CONTRACTS  
AUDIT 09-19**

**INTRODUCTION**

*Internal Control and Compliance Manual for Tennessee Municipalities* requires municipal officials to “obtain a written contract for all agreements with other entities or individuals for services received or provided, regardless of whether payment is involved.” City Code requires contracts be delivered to and kept by the city finance officer prior to the approval for the payment of any contract of the city.

City Code Sections 2-551 and 2-552 require approval by city council of expenditures exceeding ten thousand dollars as well as advertisement for competitive bids. However, City Code Section 2-556 provides an exemption to competitive bidding for professional services. Further, Tennessee Code Annotated section 12-4-106 states contracts for services by professional persons or groups of high ethical standards are exempt from competitive bidding.

**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. Expenses posted to professional services accounts in the City’s accounting system have been properly documented and classified as a professional service.
2. Professional services contracts exceeding \$10,000 have been properly approved by City Council.
3. Professional services contracts have been maintained by the city finance officer.

**STATEMENT OF SCOPE**

Based on the work performed during the preliminary survey and the assessment of risk, the audit will cover the professional services contracts payments from July 1, 2008 through June 30, 2009. Source documentation was obtained from Finance department. Original records as well as copies were used as evidence and verified through physical examination.

**STATEMENT OF METHODOLOGY**

During the audit, interviews were conducted with Finance department staff. In addition, we reviewed the *Internal Control Compliance Manual for Tennessee Municipalities*, State and City Code, and relevant City ordinances.

We reviewed a sample of expenditures located in Banner account numbers 710101 through 710110 and 710301 through 710308. Listed below is a detail of the account numbers with description.

710101 - Archaeological Services	710102 – Architectural Services
710103 – Auditing & Accounting	710104 – Consultant Fees
710105 – Court Reporter & Transcriber fees	710106 – Honorarium
710107 – Investigative Services	710108 – Jury & Witness Fees
710109 – Legal Services	710110 – Veterinary Services
710301 through 710308 – Engineering Services	

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the 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 test work performed and the audit findings noted below, we conclude that:

1. Payments were not always properly documented and classified as a professional service.
2. The majority of professional services contracts exceeding \$10,000 have been properly approved by City Council. However, we found two vendors with expenditures in excess of \$10,000 that did not appear to have council approval.
3. Professional services contracts have not been maintained by the city finance officer.

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

## **LACK OF SUPPORTING DOCUMENTATION**

We examined 49 warrant vouchers and supporting documentation. We found several payments made without a detail invoice. Instead, the supporting documentation was a statement. The *Internal Control and Compliance Manual for Tennessee Municipalities* requires detailed support prior to making any disbursements and specifically states a request for payment “should never be based on a statement only.”

### **RECOMMENDATION 1**

We recommend adequate supporting documentation be obtained prior to payment of expenditures.

### **AUDITEE RESPONSE**

All of the payments in question are City Attorney staff members who at the time of the payment were on retainer by the City through the City Attorney’s private law firm of Nelson, McMahan & Noblett. These attorneys have now become employees of the City. It was the City Attorney’s position that under State Law, he had the authority to hire counsel and that the general practice of attorneys not to enter into formal written contracts was acceptable.

## **LACK OF COUNCIL APPROVAL**

We reviewed a sample of expenditures by vendor that were in excess of \$10,000 during the fiscal year. We found payments made to two vendors that exceeded \$10,000 but did not appear to have City Council approval. In both cases, the payments to the vendor were for a single project/service.

City Code Section 2-551 requires approval by city council for contracts in excess of \$10,000. Further, City Code Section 2-549 prohibits the splitting of payments to circumvent council approval.

### **RECOMMENDATION 2**

We recommend the Finance department require a copy of the resolution or council minutes be included with the warrant voucher or request for payment.

### **AUDITEE RESPONSE**

Grote Consulting Corporation was paid on separate purchase orders for the basic consulting service and for the related travel. The combined total exceeded \$10,000. Latin American Consulting was paid over \$10,000 for their services over a 12-month period in lower dollar increments. These instances of noncompliance occurred under the old Banner System. We have since implemented a control in Oracle that will flag any commodity that exceeds \$10,000 for review by purchasing staff before issuing a purchase order. The buyer is also required to note the resolution number or council approval date in a descriptive flex field.

### **CONTRACTS NOT ON FILE**

City Code Section 2-559 states “no warrant shall be approved for the payment of any contract of the city unless provisions of this article shall have been complied with and unless *the original of the contract is on file with the city finance officer.*” (emphasis added) We reviewed a sample of warrant vouchers for professional services. During the review, we noted the warrant vouchers did not always indicate a contract was on file. Further, we found, in many cases, payments were made prior to the receipt of the contract from the Finance department. We also noted a payment that was not in compliance with the contract.

We reviewed the contracts associated with the payments in our sample. We were unable to locate the majority of the contracts. Further, contracts that were found were located in various areas in the Finance department. City Code Section 2-548 (b) states “the original of all contracts shall be delivered to and kept by the city finance officer.” We have noted this deficiency in multiple previous audits.

The finance department has not maintained contracts in an organized manner to assist department staff in the performance of their job duties. Therefore, voucher payments have been approved without adequate support (review of contracts).

### **RECOMMENDATION 3**

We recommend warrants not be paid until the contracts are on file with the city finance officer.

### **AUDITEE RESPONSE**

The majority of the contracts not found related to the City Attorney’s office. The former City Attorney expressed the opinion that City Code Sections 2-46 and 2-48 established his responsibility for hiring all Special Counsel and that his determination and judgment on fees shall be final and conclusive. With regard to former associates of the law firm who have now been hired as city legal staff, this is no longer an issue. Outside contracts, such as contracts with court reporters, are now being drafted.

A reminder has been sent to department heads to send a copy of all contracts to the Finance Department. Payments may be withheld if executed contract copies are not on file. Due to timing of some major construction contracts, initial payments may be made prior to full execution of contracts but not before the contract is approved by council. Finance procedures are enhanced to require a review of all payments for services to ensure contract is executed.

#### **RECOMMENDATION 4**

We recommend the Finance department obtain copies of all contracts as required by City Code. Further, we recommend they develop an organized and centralized system to track and maintain all original contracts.

#### **AUDITEE RESPONSE**

The long term goal is to develop an electronic filing system through Oracle and/or another electronic document management system for storing all contracts for review by finance personnel prior to payment. In the interim, internal controls will be strengthened to ensure that payments are not made on contracts for goods and services until a hard copy of the signed contract is on file in the City Finance Department. Better procedures will be developed for tracking/locating contract based on some practical methodology that may not require all contracts filed in a central location.