



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

January 26, 2010

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Post Audit Review of Business Tax Collections, 09-06

Dear Mayor Littlefield and Council Members:

On July 24, 2009, the Internal Audit Division released an audit on the business tax collections. We performed certain procedures, as enumerated below, with respect to activities of the Treasurer's Office in order to render a conclusion on the status of the recommendations made as a result of that audit.

This Post Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards.

The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

The conclusions of Audit 09-06 were that:

1. Businesses were properly classified to obtain the appropriate tax.
2. Weaknesses exist in the internal controls for business tax cash collections.
3. Delinquent accounts are not adequately monitored or documented.
4. The City should perform routine desk and field audits as a standard practice.

The audit contained 5 recommendations that addressed the audit's findings. Based on the review performed, we concluded that four of the recommendations were fully implemented and one

recommendation is no longer relevant due to changes in the State Code.

We recommended (**Recommendation 1**) the Treasurer's Office assign a separate cash drawer for each employee who receives funds. Further, we recommended the Treasurer's Office (assisted by the IS Department) assign a unique user id and password for each cashier. Also, each cashier should be provided a daily transaction listing for daily reconciliation of cash collections.

In January, the Treasurer's office started using Accela, a business tax software to issue new licenses and collect fees due to the new State law. The Accela software provides a separate user id for each user and each cashier signs on to their own session. At the end of the day, a session report is printed for each cashier and matched to their money. The Treasurer's office has setup separate cash drawers for each cashier which are secured and locked.

We recommended (**Recommendation 2**) the Department use pre-numbered license/permit forms. We further recommended the written procedures manual be updated to include a daily reconciliation of the number of licenses issued to the number of pre-printed forms issued.

The Accela system is setup to automatically issue a sequential license number with each new entry. They are still using the BUSL system to issue a few business licenses. These license are for delinquent accounts that are paying their past due amounts. They are manually prenumbering all license forms that are used in the BUSL system. Further, the BUSL license forms are reconciled on the daily collection reports.

We recommended (**Recommendation 3**) the Treasurer's Office develop a formal written procedure which includes documentation, review and approval of delinquent accounts placed into "suspense" status. Also, we recommended BUSL access rights be modified to allow only the supervisory level the capability to change an account to or from a "suspense" status. Due to the ease and opportunity available for abuse, embezzlement and/or fraud, we further recommended consideration be given to a notification or approval from the Finance Officer or an individual independent from the Treasurer's Office prior to any write-offs (transfers to suspense).

The Treasurer's office staff has modified access to suspense accounts and limited it to supervisor personnel only. Based on discussions and a review of the updated procedures manual we noted a written procedure has been developed to address the process of placing delinquent accounts into "suspense" status. The office has not implemented our suggestion to have an individual outside of the Treasurer's office approve any write-offs of delinquent accounts. However, the State will take over the collection process of delinquent accounts during 2010 and therefore, the added approval will be unnecessary.

We recommended (**Recommendation 4**) management expand their current written policies and procedures to be comprehensive of all processes performed by the staff. The policies and procedures should address the steps of the process, retainage of supporting documentation, and supervisory review/approval.

The Treasurer's office has updated their written policy manual to address the current operating procedures. They also have new procedures which address the Accela system. Due to the new State regulations, their procedures will likely include several changes as they implement the new State law requirements.

We recommended (**Recommendation 5**) the Treasurer's Office devote resources to perform in-house reviews, analysis and field audits. Should the Treasurer's Office lack the necessary staff to devote to these duties, it appeared the additional revenues generated would warrant the hiring of an additional employee.

As stated in our audit report, prior to the release of our report, the State of Tennessee, through HB 2275/SB 2318, has transferred primary responsibility for administering the business tax from the local governments to the state. Based on discussions with the Treasurer's Office, the State has completed the transition as of January 2010.

We thank the personnel in the Treasurer's office for their assistance in conducting this review. We will consider this report to be final unless directed to continue our review.

Sincerely,



Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Gayle Keown, City Treasurer
Daisy Madison, City Finance Officer
Audit Committee