

**AIR POLLUTION BURN PERMIT SYSTEM**  
**AUDIT 08-03**  
**July 8, 2008**



# City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell  
Director

Ron Littlefield  
Mayor

July 29, 2008

Honorable Mayor and Members of City Council  
City of Chattanooga  
Chattanooga, TN 37402

RE: Air Pollution Control Bureau Burn Permit System Audit 08-03

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on the Air Pollution Burn Permit System.

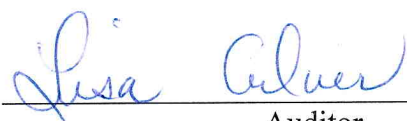
We would like to thank the management and staff of Air Pollution Control Bureau and the Finance department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM  
Director of Internal Audit


cc: Dan Johnson, Chief of Staff  
Robert Colby, Director of Air Pollution Control Bureau  
Daisy Madison, Finance Administrator  
Claude Ramsey, Hamilton County Mayor

**AIR POLLUTION BURN PERMIT SYSTEM  
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Auditor



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Audit Director

**AIR POLLUTION BURN PERMIT SYSTEM  
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**INTRODUCTION**

The Air Pollution Control Bureau, founded in 1969 by City ordinance, strives to administer local air pollution control laws that are intended to achieve and maintain such levels of air quality as will protect human health and safety. Their annual budget of \$1.3 million is funded by the City, County and Federal appropriations. The Board is comprised of ten-members who are appointed by both the City and County Mayor. Seasonal burning is controlled by the Air Pollution Control Bureau. Burning permits are issued in Hamilton County between October 1 and April 30 for an appropriate fee. City residents are subject to a non-refundable \$50 permit fee and county residents a \$5 fee. Inspections are required for all City residents who apply for a permit. Non-compliance with any of the conditions is a violation of the law and punishable by a penalty of up to \$25,000 per day.

**STATEMENT OF OBJECTIVES**

This audit was conducted in accordance with the Internal Audit Division's 2008 Audit Agenda. The objectives of this audit were to determine if:

1. Proper internal controls are in place for the collection process of the burn permits system.
2. Burn permit collections are properly documented and deposited to the Treasurer's office within the three day period as required.
3. All funds are being secured properly.
4. There are adequate written procedures/policies for the Burn Permit System Collection Process.

**STATEMENT OF SCOPE**

Based upon the work done during the preliminary survey and the risk assessment, the audit will assess the security and integrity of the burn permit database and review collection procedures for the period covering July 1, 2007 to June 30, 2008.

## **STATEMENT OF METHODOLOGY**

Auditors interviewed all Air Pollution personnel who handle the burn permits to gain an understanding of the collection process and their operations. Collection reports, Daily Tally Sheets, burn permits, applications, and receipt books were reviewed during the audit. Original records, as well as copies were used as evidence and verified through physical examination. In addition, the City Code, State Code, Internal Control and Compliance Manual for TN Municipalities, and Accounting policies/procedures were used as reference.

## **STATEMENT OF AUDITING STANDARDS**

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions. In addition, we abide by the standards of professional practice established by the Institute of Internal Auditors. An internal audit charter has not been approved by the City Council.

## **AUDIT CONCLUSIONS**

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

1. There are weaknesses in the controls for the burn permit collection process.
2. Burn permit collections are not supported properly and are not deposited within three days to the Treasurer's office.
3. Funds are not always secured.
4. Currently, there are no written procedures/policies for the Burn Permit System Collection Process.

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

## **LACK OF SUPPORTING DOCUMENTATION**

During the review of the collection process for the burn permit fee, it was observed that the documentation attached to the Air Pollution collection reports was not sufficient to support the amount collected. Air Pollution staff only submit one spreadsheet which lists all the checks and cash per permit fee type. The collection is not supported by receipts or any daily reconciliation of funds. Also, copies of checks and receipts are not used for supporting documentation for the collection. Accounting procedures for Collection Reports Section 1d state that “Copies of checks, receipts and other supporting documentation should be stapled to the back of the white original collection report.”

## **RECOMMENDATION 1**

Air Pollution staff should provide supporting documentation for collection reports which verify each day's collections. This includes listing all receipts issued for each day which should match the total amount collected. All collections should follow the Accounting Collection Report procedures for submitting collection reports.

## **AUDITEE RESPONSE**

The Bureau has implemented this recommendation. A copy of the Bureau's “Daily Cash Report” which is prepared at the end of each business day is now being attached to the collection report prepared for that day. The Cash Report includes a list of all funds received by the Bureau on that day, the receipt number for each payment, the name of the person or organization making the payment and the account into which the payment should be deposited.

## **COLLECTIONS NOT REPORTED DAILY**

Currently, Air Pollution staff reconciles the burn permit fees daily. They print out a Daily Tally Sheet which lists all the permits issued with totals and they verify that list with the actual funds collected. This process is accomplished by the receptionist who collects the fees for burn permits and the Executive Assistant who verifies the money at the end of each day. However, this money is not submitted to the Treasurer's office on a daily basis. At a later date, the daily collections are given to the Administrator Coordinator who prepares one collection report with these multiple daily collections. At this point, the Daily Tally sheets are not used as supporting documentation; instead the Administrator Coordinator prepares a spreadsheet which lists the combined total of all cash collected into one amount for the burn permit fees and lists the checks collected also. Now, the ability to verify daily collections has been lost and the internal control is weakened. The Internal Control and Compliance Manual for TN Municipalities Title 3 Chapter 1 Section 6 states “Each day the cashier summarizes all cash collections by source on a daily collection report...”

## **RECOMMENDATION 2**

To strengthen controls in the collection process, a daily reconciliation should be made of all funds collected by Air Pollution staff and documented accordingly. The collection report should have supporting documentation that reflects the daily collections as required by the TN Comptroller's cash receipt procedures.

## **AUDITEE RESPONSE**

The Bureau has implemented this recommendation. The Bureau's "Daily Cash Report" is prepared at the end of each business day by the Administrative Support Assistant and is verified by the Executive Assistant. In the absence of the Executive Assistant, the verification will be done by the Operations Manager. Receipts are maintained for all funds received.

## **RECEIPTS ARE NOT BEING ISSUED**

During the process of the audit, the Air Pollution receipt books were reviewed along with collection reports. It was determined that receipts are not issued for all funds received. In addition, receipts are not referenced on collection reports. However, the Air Pollution Procedures Section 5-3 states "Receipts shall be made for all checks and cash delivered to the Bureau..." In addition, the TN State requirement TCA 9-2-103 states, "Each state, county and municipal official who receives any sum or sums in such official's capacity shall issue to the payer thereof a receipt and shall retain a duplicate thereof in the office of such official..."

## **RECOMMENDATION 3**

Air Pollution staff must ensure that a receipt be issued when funds are collected as required by TN State Code and Air Pollution Bureau procedures. In addition, receipt numbers should be listed on collection reports and verified against funds collected.

## **AUDITEE RESPONSE**

The Bureau concurs with this recommendation and has stressed the importance of following these procedures to staff. Receipt numbers are now listed on the "Daily Cash Report" which is attached to the day's collection report. Additionally, the receipt is cross-referenced to the collection report. Once the day's collection report is completed, the collection report number is written on the receipt for each transaction listed on that day's collection report.

### **COLLECTIONS NOT DEPOSITED AS REQUIRED**

Auditors reviewed all the collection reports for the burn permit fees during the audit period and found only five out of thirty-five (14%) were turned in within the three day period as required. TCA 6-56-111 requires all funds collected by a municipal official to be submitted to the Treasurer's Office within three days of the initial receipt. A violation of this code section is a Class C misdemeanor.

### **RECOMMENDATION 4**

All Air Pollution collections must be submitted to the Treasurer's office within the three day period as required by TCA 6-56-111.

### **AUDITEE RESPONSE**

The Bureau concurs with this recommendation. The Administrative Coordinator will prepare a separate collection report for each day funds are received. The collection report will include receipts for only one day. The collections and report will be delivered to the Treasurer's office within three days of receipt. In the absence of the Administrative Coordinator, the Operations Manager will have the report prepared and will deliver the funds to the Treasurer's office.

### **FUNDS ARE NOT PROPERLY SECURED**

While conducting the audit it was noted that the funds collected at the front counter and received in the mail are stored in a cash drawer that is not locked. The cash drawer that is attached to the front desk is not locked during operating hours. At the end of each day, all funds are locked in a secure cabinet but during working hours funds are kept in the cash drawer that is not locked.

### **RECOMMENDATION 5**

Property should always have adequate physical security, especially valuable items or high theft items such as cash. Cash should always be secured in a locked drawer. Access to valuable assets should be restricted to a limited number of people to minimize the risk of shortages.



### **AUDITEE RESPONSE**

The Bureau concurs with this recommendation. The cash drawer at the front desk will be kept locked during regular operating hours. After regular office hours, the funds will be placed in a locked cabinet.

### **SEPARATE CASH DRAWERS NOT BEING UTILIZED**

To be in compliance with the Internal Control and Compliance Manual for TN Municipalities Title 3 Collections/ Revenues, Chapter 1 section 6, states that “Each cashier should be assigned a separate cash drawer that is accessible only to that cashier.” Air Pollution staff use one cash drawer to collect and store funds during operating hours. At times during the day up to three employees could be using the same cash drawer to collect money and make change. This procedure is a weakness due to the inability to determine which cashier made an error during the day if the funds are out of balance. In addition, these same employees use the same user name to enter the applications into the Access database for burn permits.

### **RECOMMENDATION 6**

Air Pollution management should invest in separate cash drawers for each employee who receives funds. Also, each employee needs to have their own individual sign on for the Access database.

### **AUDITEE RESPONSE**

The Bureau has implemented the items in this recommendation. A locking cash bag has been purchased for each of the employees authorized to receive funds. These employees will keep their cash bag in a secured drawer during the day and all of the bags will be reconciled daily and locked in a central drawer during non-business hours.

With the assistance of the City Information Services (IS) department a separate log-on has been created for each authorized user of the Access database.

### **POLICIES/PROCEDURES NOT IN PLACE**

Auditors interviewed Air Pollution staff and found that currently, they do not have any formal written procedures for the burn permit collection process. Due to a lack of policies and procedures there is no reasonable assurance regarding the achievement of safeguarding assets, ensuring validity of financial reports and records, adherence to regulations and laws or effectiveness and efficiency of operations.

## **RECOMMENDATION 7**

To strengthen internal controls and ensure proper handling of cash collections, Air Pollution management, should document the process and business practices for the burn permit fee (as well as other) collections. After completion, employees should be provided with and have ready access to departmental policies and procedures.

## **AUDITEE RESPONSE**

A draft procedures document specifically for the burn permit program has been completed and is under review. The document will be finalized and provided to employees no later than August 1, 2008. Written procedures for cash collections in general are being prepared and will be provided to employees no later than August 15, 2008. Additionally, these documents will be placed on the Bureau's computer server in a file accessible to all employees.

## **COLLECTION REPORT REVIEW BY FINANCE DEPARTMENT**

The Accounting department is charged with the daily review of collection reports as stated in their policies and procedures manual. Their policy also requires that proper supporting documentation must be attached to the collection report. However, such support was not found on the Air Pollution collection reports reviewed. As stated in the findings above, Air Pollution collection reports lack sufficient supporting documentation, do not reflect daily collections, receipts are not being issued and collections are not submitted within three days as required. Due to these numerous violations of policy, a major control weakness exists in their collection process. However, it does not seem that the Accounting department has addressed these violations. In addition, this same type of situation was noted in an audit report from March 2006 (Audit 06-02) in which the Finance Officer stated that they would strengthen their internal review process of collection reports.

## **RECOMMENDATION 8**

The Finance Officer should ensure Accounting staff are following established accounting policies and procedures as they relate to collection report documentation.

## **AUDITEE RESPONSE (FINANCE)**

We agree that support for Air Pollution Control Bureau collection reports has been inadequate and will strengthen our review process. We have spoken with the APCB business office manager and agreed on additional support for the collection reports. Each report will be accompanied, as appropriate, with a schedule of fees, fines, and miscellaneous collections and/or a printout from their permitting system showing a listing of permits. They will also

list, as appropriate, the receipt numbers and will use preprinted City of Chattanooga receipts when appropriate.

The attached "Daily Collection Report" shows the following additional support which will be required for APCB collection reports. Each report will contain at least one and up to all three of the following, depending on the nature of the collection:

1. Daily Cash Report - a summary of everything collected each day
2. Daily Talley Sheet for Burning Permits
3. Daily Asbestos Talley Sheet

### **FUNDS NOT COLLECTED**

During the audit, Air Pollution receipt books were reviewed. The Auditor noted two receipts that could not be verified as collected. First, receipt (#13012) was issued for an asbestos permit on March 12, 2008 for \$100 in cash. However, collection report #85691 prepared on March 19, 2008 only lists \$95 in cash for an asbestos permit. Second, receipt (#13023) was issued for an asbestos permit on March 20, 2008 in the amount of \$150 dollars cash. This amount could not be verified as being collected on any collection report submitted by Air Pollution. On June 25, 2008, after discussing the above mentioned receipts with Air Pollution staff, \$150 in cash was reported found in a desk drawer by an Air Pollution employee. This money was later submitted to the Treasurer's office for collection. As noted in above mentioned findings, the collection process at the Air Pollution Control Bureau has major control weaknesses. This is evidenced by the funds found three months after being received (after being questioned by the Auditor). This weakness can lead to misappropriation of funds or embezzlement, or the appearance of such.

### **RECOMMENDATION 9**

Air Pollution staff should reconcile each day's collection to supporting documentation and have it reviewed by an independent party before being submitted to the Treasurer's office.

### **AUDITEE RESPONSE**

The Bureau concurs with this recommendation. Each day's collection is reconciled to the "Daily Cash Report" prior to the preparation of the Daily Collection Report by the Administrative Coordinator as discussed under Recommendation 4. The Report will be reviewed by the Operations Manager or other independent party before submittal to the Treasurer's office.