

**Post-Audit Review 19-05:
Franchise Fees**

February 2021

City Auditor

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OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

February 24, 2021

To: Mayor Andy Berke
City Council Members

Subject: Post-Audit Review of Franchise Fees (Report #19-05)

Dear Mayor Berke and City Council Members:

Attached is a summary report on the status of audit recommendations in our 2020 Franchise Fees report. The purpose of this report is to confirm whether, and to what degree, management has implemented the recommendations made in the original audit.

The original audit concluded:

1. Written policies and procedures are needed to establish accountability and controls for the franchise process;
2. The finance department needs to establish who is responsible for managing and monitoring the process;
3. The franchise agreements should include a requirement to provide the City with insurance documentation;
4. The finance department should work with the franchisees to assure customer service addresses are correctly coded;
5. The finance department should work with CDOT and Land Development to implement a process to identify additional utility and telecommunications providers requiring a franchise with the City; and,
6. The finance department should work with the franchisees to provide sufficient supporting documentation with payments to determine if the franchise agreements and payments are in compliance. Also, all franchise agreements should include a requirement to provide adequate supporting information with payments to the City.

The audit had 6 recommendations to improve efficiency and effectiveness of the franchise fees process as well as address internal control deficiencies observed in the franchise fee collection processes. At the time of this Post-Audit Review, one recommendation was not implemented and five were implemented. The recommendation not implemented is herein reported to the Audit Committee for follow-up, as appropriate.

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.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Kerry Hayes, Chief of Staff
Maura Sullivan, Chief Operating Officer
Daisy Madison, Chief Financial Officer
Tanikia Jackson, Deputy Chief Financial Officer
Phil Noblett, City Attorney
Blythe Bailey, Administrator of Transportation
Dallas Rucker, Director of Land Development Office
Jim Arnette, TN Local Government Audit

RECOMMENDATION NOT IMPLEMENTED (1)

Recommendation	Actions Taken
4 We recommended the Finance Department work with the Franchisees to assure customer service addresses are correctly coded.	Ongoing discussions are being held with the Office of the City Attorney (OCA) and city partners regarding the pending legislation and technical aspects of assuring customer service addresses are correctly coded.

RECOMMENDATIONS FULLY IMPLEMENTED (5)

Recommendation	Actions Taken
1 We recommended the Finance Department establish written policies and procedures for the franchise process. The purpose of the policy is to establish procedures, accountability and controls for the franchise process.	Written policies and procedures have been drafted in collaboration with the Chattanooga Department of Transportation (CDOT), Land Development Office (LDO) and OCA. Procedures will be reviewed and updated annually as needed.
2 We recommended the Finance Department establish who is responsible for managing and monitoring the franchise agreements.	Collaborative partners have agreed on the responsible roles for managing and monitoring the franchise agreements. Collaborative partners (Finance, OCA, CDOT & LDO) will continue to review and refine the procedures as needed to address unforeseen issues not identified or new issues as they arise.
3 We recommended all franchise agreements should include a requirement to provide the City with insurance documentation.	The OCA has agreed to include the requirement of insurance certification for renewal of all existing agreements and any new franchise agreements.

RECOMMENDATIONS FULLY IMPLEMENTED CONT'D

Recommendation	Actions Taken
5 We recommended the Finance Department work with CDOT and Land Development to implement a process to identify possible additional entities that should have franchise agreements. For example, a periodic review of contractors granted street cut permits could identify additional utility and telecommunications providers requiring a franchise with the City.	There is an agreement among collaborative partners (Finance, OCA, CDOT & LDO) to meet annually in order to review franchise agreements.
6 We recommended the Finance Department work with the Franchisees to provide sufficient supporting information with payments to determine if the franchise agreements and payments are in compliance. Also, all franchise agreements should include a requirement to provide adequate supporting information with payments to the City.	The OCA has agreed to ensure all future franchise agreements will include a requirement that payments be supported by documentation that demonstrates compliance with the agreement terms and conditions. Format for such documents will be determined with the city partners (Finance, OCA, CDOT & LDO) based on the terms of the contract.

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