



City of Chattanooga

Stan Sewell
Director

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Ron Littlefield
Mayor

August 24, 2009

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Post Audit Review of Surplus Property, Audit 08-12

Dear Mayor and Council Members:

On November 24, 2008, the Internal Audit Division released an audit on Surplus Property. We performed certain procedures, as enumerated below, with respect to Surplus Property 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 the General Services Department staff 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 08-12 were:

1. The written policy/procedure that is currently in place for surplus property disposition is limited and does not provide adequate detail.
2. Proper controls are not in place surrounding the surplus property disposition process.

The audit contained seven (7) recommendations that addressed the audit's findings. Based on the review performed, we concluded that recommendations 4, 5 and 6 were implemented, recommendations 2 and 3 were partially implemented, and recommendations 1 and 7 were not implemented.

Recommendations Implemented [4, 5, 6]

We recommended (**recommendation 4**) that the Purchasing Department implement procedures to document the chain of custody of surplus property that comes under their control. We also recommended that the surplus declaration form be modified to include a signature line and date line for Purchasing representatives to denote when Purchasing took custody of an item and when Purchasing relinquished control of an item due to a sale or transfer of the property. We also recommended that the final destination for each surplus property item be documented on the surplus declaration form.

During our review, we learned that the Purchasing Department has implemented adjustments to the surplus declaration form to record additional information related to the property that is being surplused. A signature authorization line for the department declaring the item as surplus was added to the form, as well as a line for the date that the item was declared surplus. A signature line to denote that a purchasing representative received the surplus property was also added to this form. The Purchasing Department has also created a spreadsheet to track the status of surplus property items that come under their control.

We recommended (**recommendation 5**) that the Purchasing Department issue a receipt and retain a duplicate copy of that receipt each time that surplus property sales revenue is collected.

During our review, we learned that the Purchasing Department is now issuing a receipt and retaining a duplicate copy of that receipt each time that surplus property sales revenue is collected.

We recommended (**recommendation 6**) that the Purchasing Department acquire warehouse space so that they may keep their surplus property inventory secured so that it may only be accessed by authorized representatives of the Purchasing Department.

During our review, we learned that the Purchasing Department has secured a warehouse that allows them to secure surplus property inventory so that it may only be accessed by authorized representatives of the Purchasing Department.

Recommendations Partially Implemented [2, 3]

We recommended (**recommendation 2**) that the Purchasing Department post an electronic version of the surplus form to the City's intranet. We also recommended that the Purchasing Department post the written policy/procedure for the surplus property disposition process to the City's intranet.

During our review, we learned that the Purchasing Department has posted the surplus declaration form to the City's Intranet, but the written policies/procedures related to the surplus property disposition process have not been posted to the City's intranet yet.

We recommended (**recommendation 3**) that the Purchasing Department and the Fleet Division implement a perpetual inventory system and the related proper controls so that they will be in compliance with Section 2-5 of the City Code.

During our review, we learned that the Purchasing Department has made changes to their inventory system to move toward a perpetual inventory system, but this system has not been fully implemented yet. We also learned that the Fleet Division has made adjustments to their inventory system and a perpetual inventory system has now been implemented.

Recommendations Not Implemented [1, 7]

We recommended (**recommendation 1**) that the Purchasing Department develop written internal policies/procedures to provide guidance related to the surplus property disposition process. We also recommended that the Purchasing Department obtain a signature confirmation from each Department Administrator and Department Purchasing Contact to retain on file as evidence that the written policy/procedure related to surplus property was received by each department.

During our review, we learned that the Purchasing Department written policies/procedures related to the surplus disposition process are still in the development phase and have not yet been implemented.

We recommended (**recommendation 7**) that the Purchasing Department submit their collections to the Treasurer's Office within 3 days of the initial receipt.

During our review, we learned that the Purchasing Department is not remitting all surplus property collections to the Treasurer's Office within three days of the initial receipt.

We thank the General Services Department 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
Daisy Madison, City Finance Officer
Paul Page, General Services Administrator
Gene Settles, Purchasing Director
Artie Prichard, Assistant Purchasing Director
Brian Kiesche, Fleet Manager
Audit Committee Members