



# City of Chattanooga

Stan Sewell  
Director

INTERNAL AUDIT  
City Hall  
Chattanooga, Tennessee 37402

Ron Littlefield  
Mayor

May 15, 2006

Honorable Ron Littlefield  
Mayor, City of Chattanooga  
City Hall  
Chattanooga, TN 37402

RE: Traffic Operations Sign Shop Inventory Process, Audit 06-03

Dear Mayor Littlefield:

Attached is the Internal Audit Department's report on the Traffic Operations Sign Shop Inventory Process.

The Traffic Operations Division of the Public Works Department has already taken positive actions in response to our recommendations. We thank the management and staff of the Traffic Operations Division for their cooperation and assistance during this audit.

Sincerely,

Stanley L. Sewell, CPA, CGFM  
Director of Internal Audit

cc: Dan Johnson, Chief of Staff  
Steve Leach, Public Works Administrator  
Daisy Madison, Chief Financial Officer  
William Brewer, Director Traffic Operations

**PUBLIC WORKS DEPARTMENT  
TRAFFIC OPERATIONS SIGN SHOP INVENTORY  
AUDIT 06-03  
May 15, 2006**

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**Auditor**



**Director**

**PUBLIC WORKS DEPARTMENT  
TRAFFIC OPERATIONS SIGN SHOP INVENTORY  
AUDIT 06-03**

**INTRODUCTION**

The Traffic Operations Division of the Public Works Department installs and maintains traffic signs, traffic signals, parking meters, and pavement markings. The subject of this audit is the Sign Shop section of Traffic Operations. Specifically, we reviewed the procurement process for raw materials inventory, the handling and accounting of those materials while in process, and the handling of finished goods inventory. The Sign Shop is responsible for the creation of and maintenance of all the signs used throughout the City. They keep an inventory of raw materials used for the creation of the signs and an inventory of completed signs.

**STATEMENT OF OBJECTIVES**

The audit was conducted to determine if the City's assets were properly accounted for and safeguarded. The objectives of this audit were to:

1. Determine that the process of procurement was being followed per City policy;
2. Determine that inventory adjustments made are handled and authorized properly;
3. Ensure inventory items are secured and safeguarded; and to
4. Ensure inventory items are properly applied to jobs/costs.

**STATEMENT OF SCOPE**

Internal Audit staff reviewed relevant City Policies, procurement and inventory related documents, conducted interviews, and made on-site inspections to verify the process by which raw materials are ordered and received, the process by which adjustments are made, and to determine how the inventory count is maintained and verified. The audit period was from July 01, 2005 through March 31, 2006.

**STATEMENT OF METHODOLOGY**

Internal Audit staff reviewed the City's Purchasing Policy, talked with Purchasing Department staff, reviewed City accounting records from the BANNER (City Accounting) system, reviewed all purchase documents, order documents, and receipts, and made on-site visits to the sign shop to obtain a working knowledge of the operation of the shop and the steps taken by staff in receiving and charging out goods. Shop staff also went through a sample order to assist in the determination of adequate controls with purchases.

## **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.

## **AUDIT CONCLUSIONS**

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

1. The Division appears to be following proper procedures in the ordering of raw materials, however there are weaknesses in the use of the City's Purchase Card for raw materials;
2. There are weaknesses in the inventory adjustment process;
3. There are weaknesses in the security of the raw materials inventory;
4. The Division appears to be charging inventory to the proper jobs, per the work orders.

## **INVENTORY SYSTEM ISSUES**

City Code Section 2-5 requires "Each department and agency of the city, under the supervision of the city finance officer, shall keep a perpetual inventory of the city property under its control..." City Code section 2-505 requires the city finance officer to "...establish the city accounting procedure in such a way that his accounts will show...all transactions affecting the acquisition, custody, and disposition of assets." City Code Section 2-504 states "The city finance officer shall supervise and have charge of the keeping of all accounts and financial records for every department and agency of the city...."

The system used by the sign shop is limited to providing a listing of what is on hand at a given time. There is no method available to verify orders entered into the system, nor is there any way to track what is taken out of inventory. The documents used by the sign shop to "record an order" or "record a completed order" are thrown away after the new numbers are put into the system. There is no interaction between the BANNER accounting system (or any other city-wide system) and the sign shop inventory system. Therefore, it is not possible to review or analyze inventory transactions.

## **RECOMMENDATION 1**

Under the supervision of the city finance officer, the department should implement a perpetual inventory system capable of tracking all transactions that occur. Low cost software packages are available “off the shelf” that provide sufficient transaction detail along with an easy user interface, at a minimal cost.

## **AUDITEE RESPONSE**

We concur with comments: Public Works has an excellent work order system (City Works) currently in use at Traffic Operations that enables us to track the use of finished materials in each work order completed. An additional module of City Works (Store Room) has the capability of tracking raw materials from purchase to use in fabricating signs or other finished products. We are prepared to purchase Store Room for both MBWWTP and other PW divisions. However, this is on hold pending the City’s decision to purchase a more comprehensive software package for Finance/Personnel that may include a program similar to Store Room.

## **AUDITEE RESPONSE (FINANCE OFFICER)**

We concur. The City is in the process of purchasing a comprehensive software system that will include an inventory module integrated with finance. Although “off the shelf” packages are available, we would not suggest interface with our current system.

## **AUDITOR’S CLARIFICATION**

We do not recommend interfacing an off the shelf package with the City’s accounting system. As stated in our finding, a perpetual inventory system must be maintained. We *mentioned* the availability of very low cost systems as an *option* to meet this City Code requirement on an immediate basis. Such systems can be implemented in hours or days, as opposed to the months or years it may take to implement a comprehensive software system. Inventory items are currently at a higher risk than necessary and will remain as such until a system is in place.

We reaffirm our finding and recommendation.

## **RECOMMENDATION 2**

No documents generated throughout the process from procurement of raw materials to the issuance of a final product should be destroyed. The city enacted Resolution 23576, adopted 10/29/2002, which adopted the record retention policy for municipalities developed by MTAS. All documents should be retained according to those guidelines. The City Finance Officer should establish procedures to ensure compliance with the City's records retention policies.

## **AUDITEE RESPONSE**

We concur. All documents will be retained as required.

## **AUDITEE RESPONSE (FINANCE OFFICER)**

We concur. The City has adopted the guidelines issued by MTAS for Records Management for Municipal Governments which will be placed on the City's intranet site. All departments will be advised of the requirements to follow the guidelines and the availability of the guidelines on the intranet.

## **INVENTORY ADJUSTMENTS**

When an actual count is made, an adjustment is being made to the database listing in the system. There is no authorization for this adjustment (no supervisory review), there is no detail showing the amount of the adjustment, and there is not a documented justification for the adjustment.

## **RECOMMENDATION 3**

All adjustments made to the inventory listing should be authorized prior to the adjustment being made. There should be kept on file: the documentation detailing the amount of the adjustment, supervisory review, and the reason for the adjustment.

## **AUDITEE RESPONSE**

We concur. We have already put in place a new form to handle these adjustments.

### **RECEIVING MATERIALS**

Materials are received by more than one person. The person receiving the materials does not always sign off on the packing slip verifying all the goods have been received. Also, when goods are purchased with the City purchase card, the credit card form and the detailed receipt are not always attached, as required by policy.

### **RECOMMENDATION 4**

All receipts for goods received should have the packing slip signed by the recipient to verify that all goods ordered have been received. Also, all purchases made using the City's purchase card should have detailed receipts which include the reason for the purchase and by whom the purchase is made, per the purchase card policy.

### **AUDITEE RESPONSE**

We concur. All receipts of goods will be properly signed for, and all purchase card transactions will have required documentation.

### **INVENTORY SECURITY**

The inventory of raw materials is scattered throughout the Yards area. The finished goods inventory is in the building housing Traffic Operations. Some of the raw materials are under video surveillance, some are in the building and some are out in the open (in the Yards area).

### **RECOMMENDATION 5**

All inventories should be maintained in a secured area.

### **AUDITEE RESPONSE**

We concur. However, due to space limitations, it is impossible to have all inventory items in one place. We will seek capital funding to construct a consolidated storage facility to secure all inventory as well as provide a location for distributing finished products.