



City of Chattanooga

Stan Sewell
Director

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Ron Littlefield
Mayor

March 16, 2011

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Haman New Drivers Contract, Audit 10-08

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Haman New Drivers of Tennessee.

We thank the management and staff of the Haman's New Drivers of Tennessee, the Traffic Engineering Department and the Purchasing Department for their cooperation and assistance during this audit.

Sincerely,

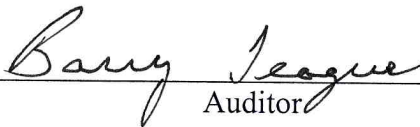
A handwritten signature in blue ink, appearing to read "Stan Sewell", with a long horizontal flourish extending to the right.

Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Audit Committee Members
John Van Winkle, City Traffic Engineer
Robert J. Rickard, COO, Haman New Drivers
Artie Prichard, Purchasing Manager

**TRAFFIC ENGINEERING DEPARTMENT
HAMAN NEW DRIVERS CONTRACT
AUDIT 10-08
JANUARY 6, 2011**

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Auditor



Audit Director

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INTRODUCTION

The City of Chattanooga contracted with Haman's New Drivers of TN (Haman) to provide young people who reside within the City limits drivers' education. The driving course consists of thirty hours of classroom instruction and six hours of driving experience. The classroom instruction is held at City recreation centers while driving instruction is based from Haman locations. Each student is charged \$50 by the City to enroll in the course. Haman New Drivers is paid \$350 for each student successfully completing the classroom portion of the course. This includes the \$50 fee charged to the student. The drivers' education program began in November 2009 and more than 450 students have completed the course as of December 2010.

STATISTICS

Purchase <u>Order</u>	Amount <u>Paid</u> *
500640	\$ 46,900
502190	84,650
505827	<u>30,800</u>
Total	<u>\$ 162,350</u>

*** Data Source - City Accounts Payable records**

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2010 Audit Agenda. The objectives of this audit were to determine if:

1. Proper Purchasing methodology was followed.
2. Proper cash collection procedures are in place within Traffic Engineering to process funds received for the drivers' education program.
3. Haman has followed contract terms in handling of the drivers' education program.
4. The City has proper procedures in place to oversee the drivers' education program.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit will cover the two contracts with Haman from November 2009 to December 2010. Source documentation was obtained from the City Traffic Engineering Office, the City Purchasing Department, City Finance Department and Haman. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

We reviewed the contracts/purchase orders between Haman and the City for pertinent facts related to our audit. We met with personnel of Haman, the City Purchasing Department and City Traffic Engineering to discuss expectations for the audit. We obtained records from the Purchasing Department to determine if proper purchasing procedures were followed related to these contracts. We obtained records from Haman, performing tests of documentation to ensure agreed upon classroom work was complete, proper charges were billed and appropriate payments made by the City. We interviewed employees of the Traffic Engineering Department to determine if procedures were in place related to tracking compliance with the contracts, and, if so, were being followed.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in City financial systems. The City's financial system was previously determined to be reliable and no additional work was necessary. All information obtained from Haman was taken from manual worksheets containing proper sign-offs of authenticity.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

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

1. The proper bid methodology was not followed.
2. Proper cash collection procedures were not in place within the drivers' education program.

3. Haman has complied with contract terms in handling of the drivers' education program, with minor exceptions.
4. The City has proper procedures in place to oversee the drivers' education program.

NOTEWORTHY ACCOMPLISHMENTS

More than four hundred-fifty young City residents successfully completed the drivers' education program during the audit period.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Traffic Engineering or Purchasing Departments, they do present risks that can be more effectively controlled.

RE-BID REQUIRED

The September 2010 bid solicitation for the drivers' education contract was not performed according to City Code. The bid solicitation for drivers' education was answered by only one vendor. Bidding was extended one week, calls made to the original recipients of the bid notice to determine any interest in bidding. However, no further advertising was performed as required in City Code section 2-553 (b). A re-bid requires a second advertisement be posted, as well as a new bid period opened. Per City Code section 2-552, prospective bidders can be contacted, but not in lieu of advertisement. Lack of compliance with City Code section 2-553 (b) can result in prospective bidders not taking part in the bidding process. Also, holding the bid open one additional week does not allow the bid to meet the stipulation in City Code 2-552 for advertisement at least ten days prior to bid opening.

RECOMMENDATION 1

We recommend when only one bid is received for a bid solicitation the Purchasing Department initiate a new bidding process with advertising and a ten day re-bid period as dictated by City Code 2-553 (b).

AUDITEE RESPONSE (Purchasing)

Purchasing is working with the legal department to develop a methodology that is in agreement with City code.

AGREEMENT REQUIRED

The Internal Control and Compliance Manual for Tennessee Municipalities, Title 5, Chapter 19, Section 11 states in part: The municipality's purchasing policy should require that the appropriate municipal official(s) and the successful bidder sign a written agreement after the contract is awarded. A signed bid was presented by Haman to the City and a purchase order accepting the bid was signed by the purchasing manager and presented to Haman. The purchase order is intended to be used in place of a contract, but does not contain the signature of both Haman and City officials as required above. The lack of both parties signature could result in a counter offer by the City when an acceptance is intended or could lead to a voidable contract.

RECOMMENDATION 2

If the Purchasing Department continues to utilize a proposal and purchase order to create a formal written contract, we recommend the purchase order form be modified to allow the successful bidder to sign purchase orders in addition to the purchasing manager. We further recommend purchase orders include by reference standard language to include related documents/terms, along with a statement that this document represents the complete agreement.

AUDITEE RESPONSE (Purchasing)

We are in agreement. We are working with the City Attorney's Office to prepare a form to be used for this purpose.

APPROVAL BY PURCHASING MANAGER

Purchase Orders 500640 and 502190 were issued for the drivers' education program between November 2009 and August 2010. The original purchase order 500640 was signed by the Purchasing Manager. Neither purchase order 502190, replacing the original purchase order, nor the three revisions to that purchase order (one correction, two updated in response to resolutions by the City Council increasing approved expenditures) was approved (signed) by the Purchasing Manager, but by a buyer. City Code section 2-548(a) states: Contracts for the purchase of supplies, materials and equipment shall be signed for and on behalf of the City by the Purchasing Agent. Contracts for construction, services and all other contracts shall be signed for and on behalf of the City by the Purchasing Agent or the head of a department, agency or division of the City where the contract originates, or as otherwise provided by ordinance or resolution.

RECOMMENDATION 3

We recommend all purchase orders and revisions be approved (signed) by a person with appropriate signing authority.

AUDITEE RESPONSE (Purchasing)

Purchasing has addressed signing authority limits in the newly implemented purchasing policies, allowing buyers in purchasing to electronically approve purchase orders under \$10,000 with larger purchases routed to the Purchasing Manager for electronic approval.

INVOICE SUPPORT DOCUMENTATION

Contract terms specify a list of students charged to the City in each invoice be attached. Haman has not complied with this portion of the contract. The inclusion of the list decreases the amount of work to be performed by City employees to track students and approve invoices for payment.

RECOMMENDATION 4

We recommend Haman attach a list of students for whom they are billing to each invoice in compliance with contract terms.

AUDITEE RESPONSE

Haman New Drivers has complied with this recommendation.

COLLECTION REPORT REQUIREMENTS

The City collection policy, as well as T.C.A. 6-56-111 specifies all funds collected be deposited with the City Treasury within three days, inclusive of the day of receipt. Our review of collections found several instances where Traffic Engineering did not meet this requirement. One person within Traffic Engineering completes collection reports for drivers' education receipts. When that person is busy or out of the office, collection reports are not always completed in a timely fashion. Additionally, our testing discovered instances where all receipts or check copies were not attached to the collection report. City Collection Report procedures in place at the time state in part: in offices that do not use a cash register, support of collection reports must include copies of checks and/or copies of fully completed cash receipts.

RECOMMENDATION 5

We recommend Traffic Engineering train additional employees in current collection report procedures and place additional emphasis on timely deposit of funds to ensure all funds are deposited within the three day timeframe specified by T.C.A. 6-56-111.

AUDITEE RESPONSE

The program coordinator will be trained in Oracle collection report procedures so she and the administrative assistant will be available to deposit funds in a more timely fashion.

RECOMMENDATION 6

We recommend City Traffic Engineering ensure all staff involved in cash deposits be apprised of the City Collection Report policy in place as of January, 2011 requiring offices that do not use cash registers to include receipts for all funds deposited, as well as copies of checks. We further recommend a procedure be implemented to insure receipts are checked against collections to ensure proper and complete documentation is attached prior to a collection report being presented to the Treasurers' Office.

AUDITEE RESPONSE

This recommendation has been implemented. Copies of checks as well as the receipts are attached to each pertinent application and turned in to Finance with all monies.

CHAIN OF POSSESSION

The Internal Control and Compliance Manual for Tennessee Municipalities states when funds pass from one employee to another, the money should be counted by both employees and a numbered receipt created with both employees signing the receipt. The receipt should be retained by the employee passing possession of the funds. We found Traffic Control personnel have not been following this requirement when funds were passed from one employee to another.

RECOMMENDATION 7

We recommend Traffic Engineering begin preparing receipts when funds are passed between employees.

AUDITEE RESPONSE

The recommendation has been implemented.

CODE OF ETHICS

The employee responsible for administering the Drivers' Education Program for the City is married to a driving instructor of Haman. The City employee approves payment of Haman invoices. The employees' manager has been aware of this relationship since its inception and also approves Haman invoices after the employee. City Code Section 2-751 (1) (C) states: a "Personal Interest" is any financial, ownership or employment interest of the official's or employee's spouse, parent, stepparent, grandparent, siblings, children or stepchildren. City Code Section 2-753 states: An official or employee who must exercise discretion relative to any matter, other than casting a vote, and who has a personal interest in the matter that affects or that would lead a reasonable person to infer that it affects the exercise of discretion shall disclose, before the exercise of the discretion when possible, the interest on a form provided by and filed with the recorder. In addition, the official or employee shall not participate in any way on matters in which they have a personal interest.

The marriage and employment relationships give an appearance of being open to possible wrongdoing, and appear to violate City Code 2-753. We did not note any actual wrongdoing as a result of this relationship. However, it does provide the appearance ethical bounds could be crossed.

RECOMMENDATION 8

The City attorney has designation as the City Ethics Officer per City Code Section 2-759. We have referred this matter to the City Attorney. We recommend Public Works Department management take appropriate steps to address this issue.

AUDITEE RESPONSE

The program coordinator met with her supervisor, John Van Winkle, when her husband was offered a job with Haman's to verify there would be no conflict of interest if her husband accepted the job. Knowing the limits of her job responsibilities and the separation between her functions and the Haman's instructors' duties, he was satisfied her husband's employment by Haman's would not have any influence on decisions she would make in her job. He concluded this working relationship would not afford either party with what could be considered an advantage of a personal interest based on the following:

1. The program coordinator has no influence in determining the terms of the contractual agreement between the City and Haman's. Any suggestions submitted are subject to approval by the City Traffic Engineer.

2. The program coordinator duties are limited to handling and processing of money paid for enrollment, scheduling, and promoting the Drivers Education Program. She verifies the amount to be paid on each invoice, but the invoice is approved by her supervisor, the City Traffic Engineer.
3. The program coordinator does not teach classes and does not have any authority over how instruction is implemented or how the course material is presented. She does not schedule Haman's driving instructors. She has no influence in Haman's business relationships in either employment practices or employee compensation.

In summary, while it is acknowledged that this situation could be perceived as being technically in conflict with the City Code; for the reasons stated above, the supervisor did not feel that there is any real functional conflict of interest in this working arrangement.