



# City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell  
Director

Ron Littlefield  
Mayor

September 17, 2012

Mayor and City Council  
City of Chattanooga  
Chattanooga, TN 37402

RE: Post Audit Review of Fleet Purchases, Audit 11-05

Dear Mayor Littlefield and Council Members:

On November 3, 2011, the Internal Audit Division released an audit on Fleet/Garage parts contracts for light duty and heavy duty trucks in the Fleet Services Department. We performed certain procedures, as enumerated below, with respect to purchases by Fleet Services related to repair parts for vehicles, in order to render a conclusion on the status of the recommendations made as a result of that audit. The timing of this post-audit review has been delayed due to Internal Audit assisting Fleet Services on a project to review vendor invoices for contract overpayments since inception of the contract, and to allow appropriate time for resolution of issues.

This Post Audit Review consisted principally of inquiries of City personnel, along with review and examination of 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 11-05 were that:

1. Lee-Smith is selling catalog items to the City at a markup of fifteen percent over their cost;
2. Lee-Smith has not met contract terms related to parts contracted to be sold with static pricing;
3. City employees are purchasing items from Lee Smith, Inc. that are not motorized vehicle parts, including items covered under blanket contracts with other vendors;
4. The City does not have procedures in place to properly check/oversee the contracts with Lee-Smith, Inc.

The audit contained eleven (11) recommendations that addressed the audit's findings. Based on the review performed, we concluded six (6) were fully implemented, four (4) were partially implemented and one (1) was not implemented.

### **Recommendations Implemented [6]**

We recommended **(Recommendation 2)** City Fleet Division demand repayment of amounts overcharged by Lee-Smith on contracted purchases since the inception of the contract.

*Internal Audit, working with Fleet Services, performed analytical work and determined the amount of overpayments. Lee Smith, Inc. issued credit memos covering overcharges (\$12,903) since the inception of the current parts agreements.*

We recommended **(Recommendation 4)** the City Fleet Services and Finance departments work with Lee-Smith to provide two daily invoices for each contract, one for static priced parts, and another for cost-plus contract purchases.

*Representatives of the Finance Department and Fleet Services met with the contractor, who agreed to combine billings. According to accounts payable personnel, related invoices have decreased from over 100 per week to approximately 25, including credit memos.*

We recommended **(Recommendation 6)** City Purchasing Department, working with Information Services, move the webpage listing blanket contracts on the City intranet to a location allowing easy access by all employees, such as under the Purchasing tab on the main page.

*The Purchasing Department had the listing of blanket contracts moved to the Purchasing tab of the City intranet. However, there is a problem as the most up-to-date list prepared by Purchasing does not always appear on the intranet. Information Services personnel are changing code to ensure the latest schedule is shown when the schedule is requested.*

We recommended **(Recommendation 8)** the City Purchasing Department explore the possibility of adding return clauses into future contracts for items that are inventoried, and the products of intended use, such as vehicle parts, are subject to obsolescence.

*The Purchasing Department has changed its policies to include such a clause in all appropriate contracts.*

We recommended **(Recommendation 10)** City Fleet Services not agree to accept bids based on items they cannot, or will not, use.



*Management of both Fleet Services and the Purchasing Department state their intent is future parts contracts will include only parts that will be purchased and used to repair equipment.*

We recommended **(Recommendation 11)** the Purchasing Department work with all departments to ensure specifications provided potential bidders meet the needs of the departments that will purchase the goods.

*Per the Purchasing Department, they are working with the buying departments to ensure the purchasing specifications meet the need of the end users.*

### **Recommendation Partially Implemented [4]**

We recommended **(Recommendation 1)** the City Fleet Services Division require Lee-Smith provide billing of static priced items on a separate invoice, enabling the City to ensure proper pricing is charged for those parts. We further recommended researching the possibility of electronic invoicing, allowing purchases to be uploaded into the accounting system and pricing checked automatically.

*Fleet Services now requires separate invoicing for contract items and non-contract items. However, Fleet Services has not implemented the recommended process to regularly test pricing on contracted items to ensure pricing is correct. No inquiry has been made of Information Services, Finance or the vendor regarding the viability of electronic billing.*

We recommended **(Recommendation 5)** the City Fleet Division use the City's parts contract for part purchases only, as well as take steps to identify all blanket contracts in place, taking advantage of those that are applicable.

*Per the Fleet Department Manager, purchases are now made using blanket orders where applicable, but such purchases may not have ceased entirely. An example is the sample pulled during this post audit review revealed roofing shingles and nails purchased using the vehicle parts contract to roof the water separator shed.*

We recommended **(Recommendation 7)** the City Fleet Department implement a policy to check the vehicle repair history to verify warranties on parts with costs exceeding \$25 have not expired prior to the replacement of the part.

*The policy has been implemented at both garages, and per garage personnel, has resulted in some reduction of expense. However, in discussions with personnel from the garages, there does not appear to be consistency in the use of the policy to return faulty items for warranty treatment.*

We recommended (**Recommendation 9**) the City Fleet Services Department update the policy and procedures manual for parts management and provide it to employees who would benefit from its use.

*The Fleet Services policy and procedures manual for parts purchases and handling has been updated, but has not been distributed to appropriate employees.*

### **Recommendation Not Implemented [1]**

Freight was being charged on immediate need parts (hotshot orders) in violation of the contract. We recommended (**Recommendation 3**) Fleet Services work with the Purchasing Department to inform Lee-Smith of the non-compliance with this contract term, and take appropriate action.

*Fleet Services has greatly reduced these charges both by working with the vendor on what type purchases they should pay freight, as well as redefining internally the definition of what is an immediate need part. However, contract terms are not being followed, as bid specification section IV (1) states, in part; "All parts are to be delivered. All deliveries, including stocked and non-stocked parts, should be included in parts price discounts". "The percentage of markup quoted is to be applied across the board to all parts purchases from your catalog of parts including, but not limited to, the items listed." "Non-stocked immediate need parts should have a two hour maximum delivery time".*

We thank the personnel in the Fleet Services, Finance and Purchasing Departments 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  
Audit Committee  
Daisy Madison, City Finance Officer  
Dan Thornton, Director, General Services  
Brian Kiesche, Manager, Fleet Services