



City of Chattanooga

Stan Sewell
Director

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Ron Littlefield
Mayor

December 23, 2010

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Returned Checks, Audit 10-05

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit report on Returned Checks.

We thank the Finance and various other departments for their cooperation and assistance during this audit.

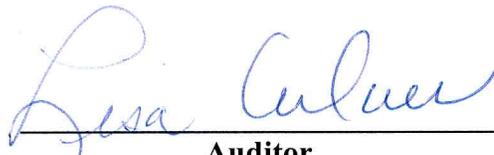
Very truly yours,

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

cc: Dan Johnson, Chief of Staff
Daisy Madison, City Finance Officer
Vickie Haley, Assistant Finance Officer
Brian Smart, Financial Operations Manager
Audit Committee

**RETURNED
CHECKS
AUDIT 10-05
December 8, 2010**

**RETURNED
CHECKS
AUDIT 10-05**



Auditor



Director

RETURNED CHECKS AUDIT 10-05

INTRODUCTION

The Finance Department notifies each City division/office when they have had a payment returned for non-sufficient funds (NSF). The City charges a \$30.00 fee for each check that is received and not honored by the bank. The various offices throughout the City are responsible for charging the NSF fee and pursuing collection on the bad check.

STATEMENT OF OBJECTIVES

The objectives of this audit are to determine if:

1. The returned checks list prepared and maintained by the Treasurer's Office agreed to the returned checks listed on the City's bank statements.
2. Whether returned checks were properly accounted for and proper follow-up was completed in a timely manner to satisfy the outstanding debt/payment.

STATEMENT OF SCOPE

Based upon the work performed during the preliminary survey and assessment of risk, the audit period covered NSF checks received from January 1, 2010 through June 30, 2010. Source documentation was obtained from the various City divisions as well as the Finance department. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

We met with staff from multiple City departments/divisions to obtain an understanding related the process of handling returned checks and reviewed any policies and procedures related to the return check process if available. We also reviewed bank statements, collection report information and the related supporting documentation. We reviewed detailed documentation to determine our sample.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT CONCLUSIONS

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

1. The returned checks list prepared and maintained by the Treasurer's Office agreed to the returned checks listed on the City's bank statements.
2. The majority of the returned checks were properly accounted for and follow-up was completed in a timely manner to satisfy the outstanding debt/payment.

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

WRITTEN POLICIES/PROCEDURES

As a part of this audit, we inquired with multiple City divisions to determine if written policies/procedures were in place related to processing returned checks. Of the nine divisions/departments that we contacted, City Court was the only division that had adequate written policies in place. Two other divisions included a mention of return checks in their policies but did not have a detailed procedure. The remaining six divisions did not have any written procedures related to collecting and documenting returned check funds for their area.

RETURNED CHECK PROCESS

As a part of our audit, we reviewed checks that were reported to the City Treasurer's Office as NSF (Insufficient Fund) checks by the City's banks to see if the departments were contacting the payor and attempting to re-collect funds. In addition, we reviewed department files to see if they charged the return check fee. During our review, we found the majority of the departments are notifying the payor of the returned check and attempting to collect the funds. However, we did find instances when the returned check was not handled properly by the department.

RECOMMENDATION 1

We recommend the Finance Department work with the different City departments to ensure that each area has a comprehensive written policy/procedure in place to provide detailed guidance related to the process of returned checks. Alternately, the Finance Department could establish a City-wide policy that addresses minimum procedures all departments must follow. This would include but not be limited to: Proper accounting procedures, documenting notification to the payor, and re-collection efforts. This policy should be posted on the Intranet once established and distributed to all departments.

AUDITEE RESPONSE (FINANCE)

We agree with the recommendation. The current procedures will be re-written into a comprehensive policy to include all necessary forms and sections with more department-specific guidance as needed.