



# City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell  
Director

Ron Littlefield  
Mayor

December 5, 2005

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

RE: Recreation Center Purchase Cards, Audit 05-02

Dear Mayor Littlefield:

Attached is the Internal Audit report on the purchase card usage of Recreation Center Supervisors.

The Purchasing Department, working with the Chief of Staff and Department Administrators, has already developed a new purchase card policy that should aid in preventing abuses in the future. We thank the management and staff of the recreation centers, as well as the Purchasing Department for their cooperation and assistance during this audit.

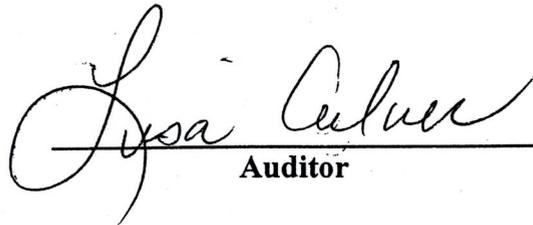
Very truly yours,

Stanley L. Sewell  
Director of Internal Audit

cc: Dan Johnson, Chief of Staff  
Rob Healy, Parks & Recreation Administrator  
Daisy Madison, Finance Officer  
Gene Settles, Purchasing Director  
Missy Crutchfield, Education, Arts & Culture Administrator

**PARKS & RECREATION DEPARTMENT  
PURCHASE CARD USAGE OF RECREATION CENTER SUPERVISORS  
AUDIT 05-02  
DECEMBER 5, 2005**

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PURCHASE CARD USAGE OF RECREATION CENTER SUPERVISORS  
AUDIT 05-02**

  
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**Auditor**

  
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**Director**

**PARKS & RECREATION DEPARTMENT  
PURCHASE CARD USAGE OF RECREATION CENTER SUPERVISORS  
AUDIT 05-02**

**INTRODUCTION**

During the period under audit, there were two recreation center supervisors responsible for overseeing all fifteen recreation centers within the City. Some of their job duties included directing city-wide recreational programs, assessing the recreational needs in an assigned area, making purchases and/or purchase requests to meet the needs of the recreation centers, supervising, hiring and evaluating recreation staff, as well as developing management reports and reporting to the Parks and Recreation Administrator.

To streamline the process of making minor purchases required to meet the needs of the various recreation centers, the supervisors were both provided with purchase cards. Prior to receiving purchase cards, the supervisors received training and a copy of the purchase card policy in April 2003. Until August 20, 2004, the purchase card policy stipulated a single transaction limit of \$1,000.00. The revised policy which took effect August 20, 2004 increased this limit to a \$2,000.00 maximum. However, recreation center supervisor's authorized limit remained at \$1,000.00 after the 2004 policy change. The policy specifically states "purchases split to remain under the single transaction dollar amount are also unauthorized...." The policy also specifically states that the "card is not to be used for...gift certificates...."

**STATEMENT OF OBJECTIVES**

The Audit was conducted due to concerns expressed by Management. During a review of monthly purchase card activity, Parks and Recreation management noticed a dramatic decrease in the monthly expenditure amounts for a Recreation Center Supervisor in the period following a change in management. They also noted what appeared to be an excessive amount of unutilized assets stored in a Recreation Center Supervisor's office. The objectives of this audit were to ensure that:

1. Durable assets purchased by recreation center supervisors could be located; and
2. Purchase card policies were not violated.

## **STATEMENT OF SCOPE**

The audit period covered credit card activity for recreation center supervisors from April 2003 to July 2005. Source documentation was obtained from both the Purchasing Department and Accounts Payable. Original records, as well as copies were used as evidence and verified through physical examination.

## **STATEMENT OF METHODOLOGY**

Internal Audit reviewed purchasing transactions for the City's recreation center supervisors, covering the period April 2003 to July 2005. With the exception of June 2005, one of the supervisor's purchase card transactions were not examined in detail due to the low amount charged over the period. Journal vouchers were obtained from the Accounting Department with all monthly purchase card authorizations, statements and receipts for the period. The items selected for a physical inventory were based upon the judgment of the Auditor. Items that were of a durable nature such as recreation equipment, electronics, appliances and miscellaneous office equipment and accessories were chosen. Also, three warrant vouchers were reviewed from Ankar's Billiards that detailed purchases of pool and ping pong tables for the centers.

Inventory was taken by Internal Audit at the following locations:

1. Glenwood and Washington Hills Recreation Centers by Lisa Culver & Stan Sewell on November 1, 2005.
2. Eastdale, Avondale, and East Chattanooga Recreation Centers by Lisa Culver & Stan Sewell; North River Civic Center by Lisa Culver; Bessie Smith Hall by LaToya Jones on November 2, 2005.
3. Brainerd Recreation Center by Lisa Culver; East Lake Recreation Center by Lisa Culver & Stan Sewell; North Chattanooga and Wyatt Recreation Centers by LaToya Jones on November 4, 2005.
4. Shepherd Recreation Center by Lisa Culver on November 11, 2005.
5. A follow-up visit was made to Eastdale and Glenwood Recreation Centers by Lisa Culver on November 11, 2005.
6. A follow-up visit was made to East Chattanooga and Washington Hills Recreation Centers by Lisa Culver on November 16, 2005.

## **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. Some of the durable assets purchased by a Recreation Center Supervisor could not be located; and
2. Purchasing card policies were repeatedly violated by a Recreation Center Supervisor.

## **SPLIT PURCHASES**

A Recreation Center Supervisor intentionally made split purchases to avoid the \$1,000.00 purchase card policy limit on multiple occasions.

On January 26, 2004, the supervisor purchased a pool table from Ankar's Billiards for \$1,399.98. This supervisor instructed the vendor to alter the invoice to reflect a cost under \$1,000.00 with an assurance that the remaining balance could be added to a future invoice. The vendor complied with this request by preparing a false invoice and charging the supervisor's purchase card \$995.99. The remaining balance for the pool table of \$403.99 was added to the price of a ping pong table purchased by the supervisor the following month.

The supervisor was notified by Accounting, as well as Parks and Recreation Administration on March 17, 2004 that he had violated the purchase card policy by making a split purchase totaling \$2,804.00 on January 30, 2004 from Apparel Embroidery. Subsequent to this notification, the supervisor continued to violate the single purchase limit by making split purchases. On August 16, 2004, the supervisor made a split purchase from Staples totaling \$1,602.85. On January 23, 2005, the supervisor purchased another pool table from Ankar's Billiards totaling \$1,207.00. As occurred with the same vendor in 2004, the invoice was falsified to indicate a sale price of \$997.00. On February 10, 2005 the remaining balance of \$210.00 was added to an Ankar's Billiards invoice.

### **RECOMMENDATION 1**

The mandatory purchase card training, as well as the purchase card policy stresses the prohibition of split purchases. The multiple split transactions made by the purchase card user, including violations after being warned, indicate a knowledgeable intent to violate the purchase card policy. Management should take appropriate disciplinary action. At a minimum, management should revoke purchase card privileges from any user that intentionally violates the purchase card policy.

### **AUDITEE RESPONSE**

We concur. However, the employee is no longer working in the Parks and Recreation Department. The number and occasions for use of purchase cards have been significantly reduced. Current policies will be reemphasized with employees. Future instances of improper use will result in serious disciplinary action – possibly including termination.

### **RECOMMENDATION 2**

Ankar's Billiards has demonstrated a willingness to alter invoice documents. Valid third party documents are vital to the internal control structure of the City. The Director of Purchasing should consider removing Ankar's Billiards from the City's vendor list.

### **AUDITEE RESPONSE – PURCHASING DEPARTMENT**

We concur. Notification of the vendor removal will be made to all departments.

### **SINGLE TRANSACTION LIMIT**

The Purchasing Department maintains the purchase card system and electronically controls the limits for each card user through the bank's computer system. Limits (within the policy) are set by the various department administrators. A Recreation Center Supervisor made a single purchase totaling \$1,950.00 on February 10, 2005 from Ankar's Billiards. The "dollar limit per transaction" amount for this supervisor as set by Parks and Recreation Administration was \$1,000.00. The City's Purchase Card Administrator initiated a single transaction limit increase to \$2,000.00 for this supervisor, as well as other purchase card users without a request or authorization from department supervisors or administrators.

### **RECOMMENDATION 3**

The Purchasing Director should ensure that the Purchase Card Administrator is properly supervised to prevent unauthorized and/or inappropriate limit increases. At a minimum, the Director should perform periodic reviews of cardholder authorization documentation and compare authorized limits to actual limits set in the bank's system.

## AUDITEE RESPONSE – PURCHASING DEPARTMENT

We Concur. The Purchase Card Administrator increased all city purchase card holders per transaction amount from \$1000 per transaction to \$2000 per transaction at the verbal instruction of the City Finance Officer, who was responsible for Purchasing and the Purchase Card Program at that time. In the future, any increases will not be initiated without a written request from a department administrator, and written authorization from the Mayor's office.

### MISSING ASSETS

The following table details items purchased on a Recreation Center Supervisor's purchase card that could not be located:

<b>Date</b>	<b>Vendor</b>	<b>Amount</b>	<b>Item</b>	<b>Location</b>
10/14/2004	Wal-Mart	\$38.76	DVD Player	East Chatt
10/14/2004	Wal-Mart	\$38.76	DVD Player	N. River
9/13/2004	Wal-Mart	\$277	32" MTS TV	Glenwood
3/22/04	Wal-Mart	\$277	Sanyo TV	Bessie Smith
5/12/04	Wal-Mart	\$213.96	2 Bikes/Helmets	Bessie Smith
4/20/04	Radioshack	\$49.99	Humidifier	Admin.
4/20/04	Radioshack	\$99.98	2 DVD Players	Admin.
4/20/04	Radioshack	\$99.99	Digital Camera	Admin.
4/20/04	Radioshack	\$179.97	Home Theatre Center	Admin.
4/20/04	Radioshack	\$129.99	RCA 19" TV	Admin.

During a meeting with Internal Audit on November 9, 2005, the supervisor stated that the two DVD players purchased on 10/14/2004, as well as the MTS TV were delivered to the specified facilities and should be there.

This supervisor stated that the remaining missing items were prizes for the 2004 Recreation Division Christmas party. Of those items, the Sanyo TV and two bicycles were charged to the Bessie Smith Hall as Holiday program/events under the account recreational supplies. The cool mist humidifier, DVD players, digital camera, home theatre center, and RCA TV were charged to administration under the account office supplies. There was no indication on any receipts that these items were purchased for the Christmas party.

The Parks Division also has a Christmas party each year. Two Parks Division Employees were assigned the duties of purchasing gifts for the party. After reviewing their related purchase card receipts, Internal Audit noted that receipts clearly indicated items that were being used for the party.

Based on the Parks Division documentation, it would appear that employees in the department were aware of the need to specifically identify giveaway items on their purchase card documentation. Based on his coding of the Sanyo TV and bicycles to Holiday program/events, it would appear that the Recreation Center Supervisor was aware of the need to identify such items. Because there was no indication on the receipts that the items were purchased for the Christmas party, a satisfactory resolution could not be obtained for the missing humidifier, DVD players, digital camera, home theatre center, and RCA TV.

#### **RECOMMENDATION 4**

A city-wide policy should be developed regarding the use of city funds to purchase any type of door prizes, giveaway items or employee gifts. If the policy allows for such expenditures beyond a finite set of events and limits, the policy should, at a minimum, require that a written detail of the event, including a list of individual prizes/items and a budget be submitted to the Mayor's office for written approval prior to any purchases being made. The policy should further require documentation of the recipient's name and contact information. All completed documentation should be retained by the department with a copy submitted to the Finance Department immediately following any event or giveaway. The Administration should consider applying the above policy recommendation to include any parties regardless of whether door prizes are given out.

#### **AUDITEE RESPONSE – PURCHASING DEPARTMENT**

We concur. Policy will be developed.

#### **SUPERVISORY OVERSIGHT**

The purchase card policy requires supervisory review of the cardholder's monthly statement. Among the other requirements, the policy states that the supervisor is to ensure that "written explanations must provide detailed evidence of...why the purchase was made." The "Authorization of Allocated Charges" form that is submitted with the purchase card statement and documentation requires a supervisor and administrator authorization (signature). The Department Administrator was the direct supervisor of the recreation center supervisors and signed the form in a dual capacity. As previously stated, documentation for many purchases was not sufficient to determine why the purchase was made.

## **RECOMMENDATION 5**

The ultimate responsibility for ensuring that purchases are appropriate to programmatic and administrative needs rests with the department administrators. The Administrator should exercise due care to ensure proper supervisory review is taking place, as well as in reviewing monthly purchase card statements and associated documentation prior to signing. At a minimum, the Administrator should ensure that documentation is submitted to support each transaction, that such documentation clearly indicates the purpose for the purchase, and that the purchase is warranted within the programmatic or administrative area indicated.

## **AUDITEE RESPONSE**

We concur. Although it is impossible to ensure there is no abuse by any purchase card user, the new Administrator of the Parks and Recreation Department has been and is currently reviewing all purchase card transactions to help ensure purchases are needed and viable. We are working to put in place procedures that emphasize the responsibility of the employee as well as the supervisor. Even with such emphasis, we recognize the importance of the Administrator serving as a check and balance to ensure compliance. We are also working to reduce the number of purchase card users and to ensure that alternate purchasing systems have strong internal controls.

## **GIFT CERTIFICATE**

A Recreation Center Supervisor violated the purchase card policy by purchasing a gift certificate. The purchase was made on September 30, 2004 at the Mt. Vernon Restaurant for \$50. The receipt submitted by the supervisor states the purchase was "Food and Ice" for "Recreation Facility Management for Warner Park." Upon questioning by Internal Audit, the supervisor stated that this purchase was for a gift certificate given to a City employee as a retirement gift.

## **RECOMMENDATION 6**

The false description made by the purchase card user indicates a knowledgeable intent to deceive and violate the purchase card policy. Management should take appropriate disciplinary action. At a minimum, management should revoke purchase card privileges from any user that intentionally violates the purchase card policy.

## **AUDITEE RESPONSE**

We concur. However, the employee is no longer working in the Parks and Recreation Department. Guidelines for revoking of card privileges will be incorporated into department policies. Future misrepresentations of purchases will not be tolerated.