



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

February 13, 2008

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

RE: Post Audit Review of Audit Clause, #07-06

Dear Mayor Littlefield:

On August 3, 2007, the Internal Audit Division released an audit on audit clauses in City agreements. We performed certain procedures, as enumerated below, with respect to activities of the Purchasing Department in order to render a conclusion on the status of the recommendations made as a result of that audit.

This Post Audit Review consisted principally of inquiries of City personnel and examinations of various supporting 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 #07-06 were that:

1. Audit clauses are not routinely present in City agreements.
2. When present, the audit clauses were not standardized and were often insufficient.

The audit contained 2 recommendations that addressed the audit's findings. Based on the review performed, we concluded that recommendation #2 was partially implemented and #1 was not implemented.

Recommendations Partially Implemented

We recommended (Recommendation 2) that the policy established by the Purchasing Agent should require a standardized audit clause that is comprehensive enough to allow oversight of contracted activities. The audit clause should include elements noted in the attached "Audit Provisions."

The Purchasing Agent stated that the audit clause has only been implemented in some contracts used by the Purchasing staff. He did instruct his staff to start using the example of the audit clause that was provided in the Audit when issuing new contracts.

Recommendations Not Implemented

We recommended (Recommendation #1) that as a matter of good business practice the City should be protected by requiring a comprehensive audit clause in all contracts and agreements (including grant agreements). The Purchasing Agent should establish a city-wide policy that requires audit clauses in all contracts and agreements. We further recommended (as we have in the past) that this policy be included in a complete purchasing manual that is available to all city employees.

In discussions with the Purchasing Agent, it was determined that a city-wide policy requiring audit clauses to be used in all City agreements has not been established. The Purchasing Agent is currently working on a draft of the Purchasing manual and has included the requirement for the audit clause. However, the Purchasing Agent has not addressed the immediate need of using the audit clause in all City agreements and has not issued any guidance to City employees who routinely issue contracts.

We thank the personnel in the Purchasing Department 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
Paul Page, General Services Administrator
Daisy Madison, Finance Administrator