

**BOARD OF  
ELECTRICAL EXAMINERS  
COLLECTIONS  
AUDIT 08-08  
September 16, 2008**



# City of Chattanooga

Stan Sewell  
Director

INTERNAL AUDIT  
City Hall  
Chattanooga, Tennessee 37402

Ron Littlefield  
Mayor

**October 10, 2008**

**Mayor and City Council  
City of Chattanooga  
Chattanooga, TN 37402**

**RE: Board of Electrical Examiners Collections, Audit 08-08**

**Dear Mayor Littlefield and City Council Members:**

**Attached is the Internal Audit report on Board of Electrical Examiners Collections.**

**We thank the Board of Electrical Examiners for their cooperation and assistance during this audit.**

**Very truly yours,**

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

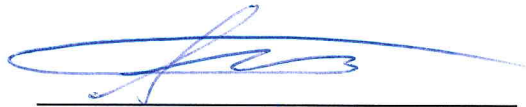
**cc: Dan Johnson, Chief of Staff  
Daisy Madison, City Finance Officer  
Kenny Smith, Board of Electrical Examiners Chairman**

**BOARD OF  
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AUDIT 08-08**



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**Auditor**



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**Director**

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**INTRODUCTION**

The Board of Electrical Examiners was established by Chapter 14 of the City Code. Chapter 14 of the City Code specifies that the Mayor must appoint and the Council must confirm the members of the Board of Electrical Examiners. Chapter 14 of the City Code also requires that certain electrical license and electrical exam fees specified in the chapter are to be collected by the secretary of the Board of Electrical Examiners and paid over to the City Treasurer. The Board of Electrical Examiners is required to comply with both the TCA Municipal Code and the City of Chattanooga's policies and practices that relate to collections.

**STATEMENT OF OBJECTIVES**

The objectives of this audit are to determine if:

1. There are adequate written policies/procedures in place for collections.
2. Proper internal controls are in place surrounding the collections process.

**STATEMENT OF SCOPE**

The audit period was FY08 (July 01, 2007 through June 30, 2008).

**STATEMENT OF METHODOLOGY**

We met with staff from the Board of Electrical Examiners to obtain an understanding about the collections process. We also reviewed Collection Reports, the related supporting documentation, and database information (Microsoft Access) to obtain information about the collections process.

**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. In addition, we abide by the standards of professional practice established by the Institute of Internal Auditors. An internal audit charter has not been approved by the City Council.

### **AUDIT CONCLUSIONS**

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

1. There are no written policies/procedures in place for collections.
2. Controls are not in place to ensure that all collections are properly accounted for.

### **WRITTEN POLICIES/PROCEDURES NOT IN PLACE**

There are no written policies/procedures in place to provide guidance related to the collections process.

### **RECOMMENDATION 1**

We recommend that the Board document internal policies and procedures, business practices, and goals and objectives. Employees should have ready access to departmental policies and procedures (hard copy, computer-based or web-based). The Board should document receipt of such policies by all staff. These procedures should ensure proper internal controls, which include but are not limited to:

- Segregation of Duties
- Proper Authorization and Approval
- Proper Review and Reconciliation
- Proper Physical Security of Assets
- Proper Training and Supervision

### **AUDITEE RESPONSE**

We concur with Internal Audit and we are presently implementing the following:

Specific duties will be assigned to issue license, administer exams and the other various duties of the Board of Electrical Examiners.

We will make bank deposits in a timely manner (no money will go undeposited longer than 3 days). We will submit timely collection reports (at the end of each month). A written policy will be on site.

## **DATA NOT TRACKED EFFICIENTLY**

We examined the Access database and the underlying support related to the Board's collection process. We observed that each time a new payment is received, each license holder's database record is overwritten to only contain the information related to the most recent payment received. We also observed that the payment information is not completely entered into the database for all license payments that are received.

## **RECOMMENDATION 2**

We recommend that the Board of Electrical Examiners implement changes to their database in order to retain accurate payment information in an electronic file. Each year, a database record should be created to store payment information for each license holder, and it should be retained for future reference and should not be overwritten. Also, complete information should be entered into the database for each payment that is received and processed.

## **AUDITEE RESPONSE**

We concur with Internal Audit. We are asking the I.S. department with the city to examiner our data base, as well as the person who wrote the program and get a determination on how these necessary changes can be implemented as soon as possible.

## **RECEIPTS NOT ISSUED**

TCA 9-2-103 requires that receipts be issued (and duplicate receipts retained) each time that funds are collected by a municipal official. Receipts are not being issued for collections that are received by the Board of Electrical Examiners. The issuance of receipts/maintenance of duplicate receipt copies on file is essential to provide an audit trail so that the initial receipt date can be documented.

## **RECOMMENDATION 3**

We recommend that a pre-numbered receipt be issued for each collection that is received by the Board. We also recommend that the Board retain a duplicate copy of each pre-numbered receipt that is issued in their files.

## **AUDITEE RESPONSE**

We concur with the Internal Audit. We have secured receipt books from the city and know what is expected. We will initiate the recommendation in its entirety.

#### **LATE FEES NOT AUTHORIZED/DOCUMENTED**

It appears that no written authorization is in place to allow the Board to assess and collect license late fees. We also found that adequate supporting documentation is not retained to support late fee calculations/collections.

#### **RECOMMENDATION 4**

We recommend that a written authorization be put in place related to late fees that allows the Board to assess and collect license late fees. We also recommend that all late fee calculations be documented in writing and retained in the files to support collections.

#### **AUDITEE RESPONSE**

We concur with Internal Audit. The recommendation regarding a written policy and late fee calculations will be implemented and accurate records will be kept to reflect the late charges and the license charges.

#### **COLLECTION REPORT REVENUE DISCREPANCY**

We attempted to agree the revenue collected (listed on collection reports) for Fiscal Year 08 to the supporting documentation that is maintained for licenses and exam fees. The supporting documentation available for licenses consisted of lists that include the name of each individual or organization that has paid for a current license. The supporting documentation available for exam fees consisted of invoices from the 3<sup>rd</sup> party exam administrator. The collection reports reviewed stated that \$111,605.00 in license fees/exam fees/late fees was turned into the City Treasurer during FY08. Our calculation of revenue collected that related to Fiscal Year 2008 licenses and exam fees showed that \$134,950.00 was collected. It is not clear why a difference of \$22,985.00 exists between the collection report totals and our recalculation based on available supporting documentation. Since pre-numbered receipts are not issued, we are not able to determine exactly when all of the Fiscal Year 08 license fee/exam fee/late fee revenue was collected and why a difference of \$22,985.00 exists between these two amounts.

#### **RECOMMENDATION 5**

We recommend that the Board implement an adequate internal control system surrounding its collections process in order to ensure that the Board properly remits all revenue to the City that is owed to the City.

#### **AUDITEE RESPONSE**

We concur with the recommendation of Internal Audit in this regard and intend to implement this immediately. All monies collected in a fiscal year will be reported in that same year.

**REVENUE ACCOUNTED FOR IMPROPERLY**

As a part of our review, we found that two thousand eight hundred dollars (\$2,800.00) in Class I and Class II contractor license revenue was reported using Account # 521115 (Electrical Examiners Fees) when it should have been reported under Account # 521112 (Annual Electrical Contractor Licenses).

**RECOMMENDATION 6**

We recommend that the Board report revenue in the proper accounts. We also recommend that the Board document the different revenue types and specifically what account each revenue type is to be reported under as a part of the Board’s written policies and procedures.

**AUDITEE RESPONSE**

We concur and will work diligently toward making sure that the revenue type is applied to the appropriate account and will implement a specific written policy regarding this.

**DAILY COLLECTION SUMMARY NOT PREPARED**

Title 3, Chapter 1, Section 6 of the “Internal Control and Compliance Manual for Tennessee Municipalities” states, “each day the cashier summarizes all cash collections by source on a daily collection report, clearly indicating the amount to be deposited....” Detailed reports that list the items collected each day are not prepared by the Board of Electrical Examiners.

**RECOMMENDATION 7**

We recommend that the Board implement a policy to prepare daily collection summary sheets and include these as supporting documentation for the Collection Reports that are remitted to the City Treasurer. If implemented, this procedure should improve internal control and it will allow the Board to be in compliance with Title 3, Chapter 1, Section 6 of the “Internal Control and Compliance Manual for Tennessee Municipalities.”

**AUDITEE RESPONSE**

We concur with the Internal Audit and will implement a policy for a daily collection summary. We will ask the City of Chattanooga I.S. department to help set up this program.



**COLLECTIONS NOT SUBMITTED TIMELY**

TCA 6-56-111 requires the Board to remit collections to their official bank account within three (3) working days of the initial receipt. Based on our review of the Board's collection procedures, it does not appear that the Board is in compliance with TCA 6-56-111 regarding their collections.

**RECOMMENDATION 8**

We recommend that the Board remit all collections to their official bank account within three (3) days of the initial receipt in order to be in compliance with TCA 6-56-111.

**AUDITEE RESPONSE**

We concur with the recommendation of Internal Audit regarding this matter. All monies collected will be deposited within three (3) working days to be in compliance with TCA 6-56-111.