



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

September 16, 2011

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Post Audit Review of Comcast Franchise Fees, Audit 10-07

Dear Mayor Littlefield and Council Members:

On January 21, 2011, the Internal Audit Division released an audit on franchise fees paid to the City by Comcast of the South, Inc (Comcast). We performed certain procedures, as enumerated below, with respect to activities of the Finance Department and Comcast, 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 Comcast, 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 10-07 were that:

1. Comcast was principally in compliance with the financial terms of the contract;
2. Comcast revenue recognition was performed properly related to contract terms, with immaterial exceptions;
3. Comcast did not have all addresses related to annexations included in their calculations for franchise fee purposes;

4. The City did not have administrative procedures in place to properly determine if contract terms are met;

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

Recommendations Implemented [4]

We recommended (**Recommendation 1**) Comcast implement measures to track annexations by the City. We further recommended the City Finance Department implement procedures to adequately inform Comcast of annexation activity.

The Finance Department has implemented procedures to inform all organizations making payments based on City population or addresses of impending annexations or de-annexations. Comcast has also stated they will monitor annexation activity.

We recommended (**Recommendation 4**) Comcast be notified to send checks directly to the City Finance Officer. After receipt, the check stubs should be date stamped and a collection report prepared by the accounting division within three days of receipt in compliance with T.C.A. 6-56-111.

All organizations paying franchise taxes have been notified by the Finance Department to forward checks to the City Finance Officer. The two checks received from Comcast since completion of the audit have been date stamped upon receipt and deposited within three days.

We recommended (**Recommendation 5**) the City Finance Department reconcile accounts receivable on a scheduled, timely basis.

The Finance Department has recently implemented reporting that allows easier account analysis. In conjunction with this reporting, a detailed process has been put in place to analyze balance sheet accounts. A pre-existing account review sheet assigns responsibility to an individual for each balance sheet account.

We recommended (**Recommendation 6**) the City Finance Department perform analysis of revenue accounts versus budgeted amounts in a regularly scheduled, timely manner. Significant variances should be traced to the root cause, and corrections made as necessary.

The Finance department has recently put in place reporting allowing easier analysis of current year revenue compared to prior year data, as well as comparison to budgeted figures. In conjunction with this reporting, a detailed process has been put in place to analyze revenue accounts in both the accounting and budgeting departments.

Recommendation Partially Implemented [1]

We recommended (**Recommendation 3**) that responsibility for each City contract be assigned to a specific group or position within the Finance Department to ensure compliance with contract terms. We also recommended an electronic tickler list be created listing all City contracts of this nature, along with specific contract terms related to requirements for payment (e.g. due date, documentation). We further recommended the employee reviewing a contract payment should sign off on the tracking spreadsheet after completing the review to ensure compliance with contract terms. Also, we recommended one individual be responsible for updating the list of contracts and terms as needed to keep it current. We further recommended this process be detailed in writing, distributed to necessary staff, and available on the City's Intranet.

The Finance Department has created a spreadsheet listing all organizations paying franchise taxes to the City. The spreadsheet contains company, accounting distribution, due date, date received, check number and amount received. An employee has been assigned responsibility for updating the contract information.

The Finance Department has not implemented the following items in the recommendation:

- *Documentation expected to be received with the contract is not noted,*
- *Due date information is not shown for all contracts.*
- *The employee entering information to the spreadsheet does not type their initials signifying they have completed the review process.*
- *The process has not been detailed in writing and distributed to applicable staff.*

Recommendation Not Implemented [1]

We recommended (**Recommendation 2**) that Comcast include all required documentation with fee payments going forward as specified in the contract.

Comcast has not complied with this recommendation. Two quarterly payments have been received since issuance of the audit report, neither containing the required documentation.

We thank the personnel in the Finance Department and Comcast 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