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INTERNAL AUDIT DIVISION

Report Number 2011-014

Letter Report - Update of Lease Review Policy

April 25, 2011

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COBB COUNTY INTERNAL AUDIT


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Division Manager

April 25, 2011

TO: David Hankerson, County Manager

FROM: Latona Thomas, CPA, Manager 

SUBJECT: **Letter Report** – Update of Lease Review Policy

Finding

During our Survey of Compliance with the Policy on Contract Management (the Policy Statement), we determined that no current Lease Review Policy is available that provides guidance on lease purchase agreement procedures. In addition, the Finance Division's Policy and Procedure Manual does not contain the procedures currently being followed pertaining to lease purchase agreements.

Section 4.3 of the Policy Statement states, 'Any proposed lease contract shall be reviewed as required by the County's Lease Review Policy before lease documents are accepted.' When we asked for the County's Lease Review Policy, the Purchasing Department provided four documents dated from January 1989 to July 1999, that pertain to a variety of leases, lease purchases and procedures, but none describe the current practices. For instance, the documents mention the Master Equipment Lease Purchase Agreement¹ (MELPA), which is the preferred method for funding capital expenditures, but the documents provide no guidance on when it should be used over other forms of financing. The documents also refer to the assembling of an ad hoc committee to evaluate proposals for lease agreements and the involvement of a Contracts/Project Manager (CPM) in the process. According to Finance Department staff, neither the committee nor a CPM position currently exists.

Internal controls need to be clearly documented and readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals. All documentation and records should be properly managed and maintained.

¹ The Master Equipment Lease Purchase Agreement is a contract between the County and a financial entity, currently Wachovia Bank, to provide financing for capital expenditures at a predetermined interest rate.

Recommendation

The Finance Department needs to develop an updated Lease Review Policy or similarly termed document to reflect the current procedures that should be followed by all departments and elected officials. The difference between an operating lease and capital lease purchase should be clearly defined. The updated policy should be distributed to all departments and elected officials.

Response

The Finance Director/Comptroller responded that updating the policy statement is in process. A final draft will be completed by May 15. Once completed, the statement will be posted to the intranet. The complete response is attached.

Please contact me at (770) 528-2559 if you have questions or Barry G. Huff, Auditor-in-Charge, at (770) 528-2558.

Distribution

James Pehrson, CPA, Finance Director/Comptroller
Internal Audit Division File

Auditee Response



COBB COUNTY FINANCE DEPARTMENT

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James Pehrson, CPA
Director/Comptroller

Latona Thomas
Internal Audit Manager
Cobb County Government

The Finance Department received Internal Audit's Draft Letter Report – Update of Lease Review Policy dated March 31, 2011. The report stated there is no current Lease Review Policy. In response to this report the Finance Department has already begun drafting a Lease Review Policy and it will include the recommendations stated in the Draft Letter Report – Update of Lease Review Policy. The Finance Department will have final draft of the Lease Review Policy completed and available for Internal Audit to review by May 15, 2011. Once the Policy has been reviewed it will be posted on the intranet.

Thank you,

A handwritten signature in black ink, appearing to read "James D. Pehrson", with a large, stylized initial "J" and a circular flourish at the end.

James D. Pehrson, CPA
Director/Comptroller