



# **CITY OF CLARKSVILLE INTERNAL AUDIT REPORT**

Senior Management Expense Audit

The Mayor, City Council and Department Heads

July 1, 2008 – December 31, 2010

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August 17, 2011

The Honorable Mayor Kim McMillan  
Audit Committee Members  
Ben Griffin, Director of Finance  
Charlie Koon, Chief of Staff  
Department Heads – Purchasing, IT, Human Resources, City Clerk, Police, Golf  
Courses  
One Public Square  
Clarksville, Tennessee 37040

Internal Auditor's Report

The City of Clarksville Internal Audit Department has audited the expenses of senior management which includes the Mayor, the Chief of Staff, the City Council, and the Department Heads for the period July 1, 2008 – December 31, 2010. The audit was conducted as a part of Internal Audit's annual audit plan and in accordance with Internal Audit's policy to conduct bi-annual reviews of senior management expenses. The audit focused on reviewing internal controls over senior management expenses, the documentation of expenses, the proper classification of the expenses in the general ledger and the allowability of the expenses.

We conducted the audit in accordance with generally accepted government auditing standards (GAGAS) as set forth in Governmental Auditing Standards issued by the Comptroller General of the United States with the exception of the peer review. 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. We believe that our audit provides a reasonable basis for our conclusions.

The audit revealed some weaknesses in internal control, in documentation and in allowability of expenses which are discussed in the findings below.

We would like to thank the management and staff in the various departments for their cooperation during the performance of the audit. Their willing assistance facilitated the audit process.

  
Lynn Stokes  
Director of Internal Audit

  
Robin Manley  
Internal Auditor

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## **Internal Auditor's Report**

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### **Origin of the Audit**

**This audit was conducted as a part of the Annual Audit Plan and approved by the Audit Committee. It was conducted in accordance with Internal Audit's policy to perform bi-annual audits of senior management expenses. The audit was estimated for completion January 2011. However, due to other audit commitments completion was delayed until June 2011.**

### **Audit Objectives**

**The audit focused on senior management expenses for the period July 1, 2008 – December 31, 2010.**

**The specific audit objectives were:**

- 1. to determine if the internal control over senior management expenses is adequately designed and operating effectively;**
- 2. to determine if senior management expenses appear to have a lawful business purpose, are reasonable and are properly supported; and**
- 3. to determine if senior management expenses are properly classified in the general ledger.**

### **Scope of the Audit**

**For the purpose of this audit, senior management includes the Mayor, the Chief of Staff, the City Council Members and the Department Heads. The auditor judgmentally selected samples from the following expense categories for examination: travel (8), memberships and conventions (2), professional services (1), other expenses (3), public relations (1), general supplies (5), and cellular phone (1). In addition, audit test work included three questionnaires that were sent to various department personnel. The first two questionnaires addressed the adequacy of internal control procedures surrounding senior management purchases. The third**

questionnaire was distributed to sixteen individuals in various departments. It asked for information regarding any directives issued by the former Mayor that would or did circumvent the City's purchasing process.

## **Results of the Audit**

### **Background**

Each department in the City has its own budget against which any purchases made by or for a Department Head are charged. The Mayor also has a departmental budget against which his/her expenses are charged. And the legislative budget is charged for expenses related to Council members.

The City has well defined travel and purchasing card policies which govern the procedures related to travel and other expense transactions examined in this audit.

IRS regulations also provide guidelines regarding travel reimbursements.

The City cellular phone policy requires all officials and employees to be prudent and avoid incurring excessive personal charges.

### **The Good News**

The auditors believe that overall the senior management expense process is properly controlled and is in compliance with City Code and State laws and regulations. However, there are some areas that need improvement as noted below.

### **Findings and Recommendations**

The following is a summary of the findings resulting from tests performed.

1. **Former Mayor's Budget - Other Expenses:**

**The City Paid \$3,733 for One City Hall Custom Window Drapery**

**Criteria:**

The City's Purchasing Policy requires management and employees to purchase goods and services for the lowest and best possible price.

**Condition:**

A new office was built in unused space on fourth floor of City Hall and the occupant spent \$3,733 for custom made curtains for one window in the office. All offices on the fourth floor have arched windows. The other offices on the floor have standard window draperies and valances that are hidden by a dropped ceiling. The employee requested quotes from three vendors for the draperies, as required by City purchasing policy. Only one vendor responded. The cost of

installing a drop ceiling with labor provided by City workers and putting in a curtain similar to others on the fourth floor would have cost the City less than the custom curtains.

**Cause:**

The employee may have been inexperienced in ordering draperies for a commercial office building and did not consider building uniformity or product alternatives in making the decision.

**Effect:**

The purchase of a custom drapery for one window costing \$3,733 can create an appearance of extravagance to the public. Also, the purchase did not provide a uniform appearance in the offices on fourth floor.

**Recommendation:**

The auditors recommend that office uniformity and public perception be considered when making decorating/redecorating decisions for office spaces. Employees and officials can confer with the City Hall facilities manager to determine the best alternative. The auditors also recommend that further quotes be sought if only one vendor responds to a request with a quoted price that gives the appearance of extravagance.

**Management's Comments:**

Agree  Disagree

The Purchasing Department makes no comment relative to the appropriateness of the decorating decision for office spaces. That is best determined by the facilities manager and department head.

Purchasing policy does state that "whenever possible" three quotes are to be obtained for purchases over \$1000.00. In the case of very specialized materials and labor, it may not always be possible to obtain three quotes. While the drapes in question were a specialty order, Purchasing does agree that in this particular case three quotes could, and should have been obtained. Upon exploration, it was determined three quotes were solicited by the department involved on April 20, 2010. One vendor's quote was received and two other vendors did not respond. The Purchasing Department was not brought into the loop until 4:11PM on June 30, 2010 when a request to approve the requisition for purchase was created by the employee involved. This was 20 minutes before the fiscal year 2010 was to end. At that point the Purchasing department would have had insufficient time to aid in getting other quotes for specialized drapes and get the information into the MUNIS system for the fiscal year in which the funds were available.

Purchasing agrees that in a case such as the above that further vendors should be contacted whenever possible in order to get three competitive quotes. This is

and will continue to be policy. We stress this in training with departments and will continue to do so. This includes oral conversations with employees that they continue the process until Purchasing is satisfied all avenues have been explored. We are happy to help with the process. In this particular case Purchasing should have been notified in late April of difficulties getting three quotes, not in late June.

**Corrective Action Plan:** Continued education with departments to emphasize this section of Purchasing Policy and City Code. It is the Purchasing Agent's plan to meet with all departments separately beginning as soon as possible to go over the policy language and emphasize this area.

**Completion Date:** December 2011  
**Responsible Manager:** Robert Bryant, Purchasing Supervisor

2. **Former Mayor - Memberships and Conventions Expense:  
Purchasing Card Statement Not Signed by Reviewer**

**Criteria:**

The City Purchasing Card (Pcard) Policy requires two reviewing signatures on all PCard statements – the cardholder and the department Pcard administrator.

**Condition:**

One sample of the former Mayor's Pcard monthly statements revealed that it was signed only by the former Mayor.

**Cause:**

The auditors were unable to determine a cause.

**Effect:**

The review process was not completed according to City Pcard policy.

**Recommendation:**

Implement a process to ensure that all Pcard statements have two reviewing signatures. The cardholder should sign the statement to confirm that the charges are in accordance with the purchases he/she made. The reviewer should sign the statement to confirm that all purchases appear to be for City purposes. In the case of the Mayor it is recommended that the Mayor sign the statement as the cardholder and the City's Director of Finance sign as the reviewer.

**Management's Comments:**

Agree   X   Disagree

**Corrective Action Plan:** This recommendation has already been implemented as a result of conversations with the auditors and the current Mayor.

**Completion Date:** NA

**Responsible Manager:** Ben Griffin, Director of Finance

**3. Former Mayor – Travel:**  
**Questionable Charges and Weak Documentation**

**Criteria:**

The City travel policy states that persons traveling on City business should incur the lowest practical and reasonable travel expenses. Travel should be conducted in such a way to minimize cost to the City's taxpayers. A signed travel authorization is to be submitted by officials and employees for all overnight travel. Supporting documentation should clearly show the business purpose for all travel expenses. Taxi fares are reimbursable if they are for a business purpose which includes traveling to and from an airport or conference venue. The travel policy does not allow reimbursement for taxi fares to restaurants if there are restaurants available within walking distance of the hotel.

**Conditions:**

The following items were found related to travel expenses charged to the former Mayor's budget:

- A. The former Mayor, several City Council members and several City employees traveled from Clarksville to Madison, Wisconsin by private jet aircraft in August 2008.
- No travel authorization was filed showing a business purpose for the trip.
  - No documented support was provided showing justification for choosing a mode of transportation which cost the City approximately \$1,500 more than commercial air travel would have cost for the same trip and the same number of people.
- B. An \$80 lounge fee was charged to the former Chief of Staff's hotel room during a trip to Boston, Massachusetts. Auditors could not locate repayment to the City for this charge. No supporting documentation was attached to verify that the charge was for food or to show how many people were served and the names of those served.
- C. No travel authorizations or supporting documents were on file to support the business purpose for trips taken to Boston, Massachusetts, Madison, Wisconsin and Valencia, Spain by the former Mayor and those accompanying him.

- D. Travel, hotel and registration expenses were paid by the City for a two day conference in Gatlinburg for the former Mayor. Supporting documentation shows that the Mayor arrived two days before the main conference and left at noon the day the conference began. Supporting documentation does not show pre-conference activities or a business purpose for the additional days or the reason for an early departure.
- E. The former Mayor was reimbursed for \$213 for taxi fares while in Las Vegas for the ICSC. The fares were for travel between locations in the city that did not include the venue site or the airport. No business purpose was documented.

**Causes:**

There are several causes for the above conditions. One cause is that the City travel policy doesn't require travel authorizations for the Mayor and, therefore, a justification for the travel is not always apparent from the documentation. Another cause is that sometimes all purchases were made with a Pcard and a travel reimbursement was not required so no travel expense report was prepared for a trip.

**Effect:**

The effect of weak documentation is that it is difficult to determine if there is a legitimate business purpose for travel expenses. The effect of questionable expenses can be the loss of public trust.

**Recommendation:** The auditors recommend implementing policies that address the above weaknesses as follows:

- A policy which includes the Mayor's office and staff that requires all overnight travel to have a travel authorization on file which clearly shows the business purpose for the travel.
- A policy requiring that a travel expense report be submitted for all overnight travel showing all expenses associated with a trip even if no reimbursement claim is necessary.
- A policy which implements a method to track within the accounting software all costs associated with each travel authorization.
- A policy requiring all group travel exceeding a certain dollar amount to have a justification detailing the expected benefit to the City and the need for each traveler's attendance.
- A policy requiring all group travel exceeding a certain dollar amount to have an after-action report prepared documenting the actual benefit to the City and recommendations regarding continued participation of the City in the event.
- A policy ensuring that the Mayor and his/her staff's Pcard transactions will be reviewed with the same scrutiny as other City employees. (see corrective action plan for audit finding no. 2)

- A policy that addresses the use of private aircraft which includes documenting the justification for the use of private aircraft and outlining whether reimbursement will be made for actual expenses or at the GSA nautical miles rate.

**Management’s Comments:**

Agree   X   Disagree \_\_\_\_\_

The former Mayor often challenged Finance to support their decisions by showing him the travel policy but he also always challenged Finance to ensure that all his expenses were in line with City policy. The trips mentioned in findings A and C were for legitimate business purposes but did not have the appropriate supporting documentation on file. Inquiries of Finance staff revealed that the staff member who was responsible for final review of travel documentation was either not fully trained or lacked the toughness to challenge mayoral expenses. This responsibility has been reassigned to another Finance employee.

**Corrective Action Plan:** The City Travel Policy will be updated in the near future to require and clarify that:

- 1) All officials and employees who travel must submit a travel authorization showing a clear business purpose for each trip, as well as a follow up expense report with adequately detailed supporting documentation.
- 2) All private aircraft travel must be justified on the travel authorization. The method of payment for private aircraft travel will also be addressed, whether actual expense or by GSA nautical mileage reimbursement.

Finance will determine if Munis software can track all costs associated with each travel authorization and, if possible, implement a tracking system. In addition, Finance will conduct travel training in the near future and then have annual refresher courses.

Completion Date:   11/30/2011  

Responsible Manager:   Ben Griffin, Director of Finance  

**4. Former Mayor -Questionable Longevity Payment**

**Criteria:**

The following criteria apply:

- Effective October 13, 2010, City employees were eligible to receive longevity pay after six years of bridged employment with the City. (City Ordinance 23-2010-11).
- Article I Section 2 of the City Charter defines the Mayor as an officer of the City and then states “An ‘officer’ as herein defined shall fill an ‘office,’ and

- an ‘employee’ shall fill a ‘position of employment.’” Language throughout the Code appears to make a distinction between officers and employees.
- Section 1-303 of City Code, which delineates mayoral compensation and which was in effect when the former Mayor came into office, stated in the last paragraph that “Unless a benefit is expressly provided for within this section, it will not be provided to the mayor of the City of Clarksville.” Longevity pay is not provided for in the section. The above wording was eliminated through a modification to the ordinance in December 2008, dealing with mayoral pay raises. Auditor research reveals that the wording was eliminated by the codification agency due to its interpretation of the language of the December 2008 ordinance.
  - Another former mayor received longevity payments in 1995-1997. Those longevity payments were made in accordance with language in the budget ordinances for those years which specifically stated that longevity would be paid to officers and employees for those years. That same former mayor was not paid longevity in 1998, after Section 1-303 (referred to above) was enacted which delineated the mayor’s compensation and benefits and which does not include longevity.

**Condition:**

The former Mayor for this audit period was paid a longevity payment in the amount of \$3,000 in December 2010. Because he is not an employee of the City by Code definition and because of the restrictive language in Section 1-303, the former Mayor was likely not eligible to receive the longevity payment.

**Cause:**

Confusion over the issues involved led to the longevity payment.

**Effect:**

The effect is that the longevity payment may have been made contrary to City Code and City Council intention.

**Recommendation:**

The auditor recommends that City Council review Code Section 1-303 and specifically include or exclude longevity payments as part of mayoral compensation. The auditor further recommends that City Council clarify its intention regarding the last paragraph of Section 1-303 which appears to have been unintentionally eliminated from the Code.

**Management’s Comments:**

Agree  Disagree

At the time longevity was paid to employees in December 2010, there was some ambiguity as to whether the former Mayor was eligible or not. Because a previous Mayor had been paid longevity, it was thought that the then current Mayor was eligible for longevity payment. Because of the lack of clarity, it is

advised that the City Council decide whether the Mayor is eligible for such compensation, or not.

**Corrective Action Plan:** Human Resources will seek clarification, starting with the Finance and Administration Committee.

**Completion Date:** 12/31/2011

**Responsible Manager:** Will Wyatt

**5. Former Mayor - Cell Phone Expense:  
Personal International Cell Phone Calls**

**Criteria:**

The City cellular phone policy allows occasional personal phone calls but users are advised to keep them to a minimum.

**Condition:**

From June 2009 to December 2010 approximately \$2,129 of charges were incurred for personal international calls placed primarily to a Caribbean phone number on the former Mayor's cell phone bill paid by the City. The approximate cost breakdown is as follows: personal long distance \$682.00, monthly cell phone charges for international calling capability \$1,278 and taxes of \$168.00. There is no record of repayment to the City for these charges.

**Cause:**

There appear to be two causes: 1) The former Mayor's cell phone plan was not set up through the IT Department like the rest of the City cell phone plans therefore his bill came directly to his office instead of IT; 2) City cell phone policy requires each department to monitor cell phone usage within its department. The former Mayor's cell phone bills were not reviewed by anyone other than himself.

**Effect:**

The payments for personal cell phone calls are not in accordance with City policy. Since the former Mayor only traveled out of the country on business once during the audit period, the monthly charges for international calling capability were for his personal benefit except for the one time he was out of the country on business.

**Recommendation:**

The auditors recommend that IT develop a policy regarding international calling on City cell phones. A policy is also needed regarding reimbursement for business related international calls on personal cell phones.

**Management's Comments**

Agree  \_\_\_\_\_ Disagree \_\_\_\_\_

**Corrective Action Plan:** IT will add instructions for international calling and roaming to existing cell phone policy.

**Completion Date:** 12/31/2011

**Responsible Manager:** Doug Sampley

### **Other Recommendation Related to Senior Management Expenses**

The following condition does not rise to the level of an audit finding since no City or State policy or law was broken. However, as a matter of transparency and good government, the auditors present the following information and related recommendations.

Conference expenses related to the International Council of Shopping Centers during the audit period totaled \$46,800. The conferences are held annually in Las Vegas and Atlanta. Multiple elected officials and City employees attended these conferences each year. The expenses for the conferences were approved by the City Council as a line item in the annual budgets.

Currently, there is no requirement to document the objective of such travel or the justification for multiple individuals attending the same conference or to document the benefit gained by such a presence at a conference.

Because these trips may give the appearance of misuse of taxpayer dollars, the auditors recommend an addition to the travel policy relating to out of town group travel when it is for other than training purposes or exceeds a certain dollar amount. A centralized event file should be established for such travel with the following required documentation:

- The objective of the trip and the expected benefit to the City.
- The names of all individuals attending the event and a description of their purpose in attending.
- An after-action report from each attendee evaluating whether the trip's objective was accomplished and whether future attendance at the same event is warranted.

### **Management's Comments**

Agree  \_\_\_\_\_ Disagree \_\_\_\_\_

**Corrective Action Plan:** Finance will update the travel policy to address the issues discussed above.

**Completion Date:** 11/30/2011

Responsible Manager: Ben Griffin

**Unrelated Findings and Recommendations Uncovered During Auditor Test Work**

During the field work conducted for this audit, the auditor found the following conditions that are not related to senior management expenses but reveal weaknesses in the areas that were tested:

1. **Legislative - Other Expense:**

**No Written City Policies and Procedures or Inter-Local Agreement in Place Between the City and Montgomery County for Pauper Burials**

**Criteria:** The ICCMTM (Internal Control and Compliance Manual for Tennessee Municipalities) requires that supporting documentation be on file for all purchases of goods and services.

**Condition:** The County is responsible for pauper burials. A pauper is a deceased County individual who has no financial means to pay for burial expenses. This is verified by a 3<sup>rd</sup> party social agency affidavit. The County receives an invoice of \$1,000 (current price) from a local funeral home for burial services and subsequently invoices the City Clerk for \$500 to pay for one half of the amount. On average, the City pays the County about \$20,000 per year for pauper burials. There are no written policies or procedures in place nor is there an inter-local agreement in place between the County and the City in regard to pauper burials.

**Cause:** Many activities have been learned on-the-job and employees have not encountered a need for having written policies, procedures and inter-local agreements in place.

**Effect:** Although a financial affidavit document accompanies each invoice there is no underlying inter-local agreement to support the County's reimbursement requests.

**Recommendation:** The auditor recommends establishing written policies and procedures and an inter-local agreement between the City and the County regarding pauper burials.

**Management's Comments:**

Agree X Disagree \_\_\_\_\_

**Corrective Action Plan:** Policies, procedures, and inter-local agreement should be drafted and presented to the Finance Committee and City Council for approval.

**Completion Date:** 12/31/2011

**Responsible Manager:** Sylvia Skinner

2. **Police Department - General Supplies:**  
**Occasional Sales Tax Paid On Purchasing Card Transaction**

**Criteria:** The City Purchasing Card Policy requires cardholders to assure that sales tax is not paid for purchases of goods and services because of the City's tax exempt status.

**Condition:** A review of payment samples showed one instance where the Police Department paid \$66.86 sales tax on a purchase of Dell computing supplies in the amount of \$722.94.

**Cause:** Employees may have been unable to provide a tax exempt certificate when making the purchase or the tax may have been overlooked during the payment process.

**Effect:** The effect is that the department ends up paying more for goods and services than is necessary.

**Recommendation:** The auditor recommends periodically reminding Pcard holders and reviewers that purchases should be tax exempt. The auditor recommends requiring a written justification before payment is made for any purchase that is not tax exempt.

**Management's Comments:**

Agree   X   Disagree \_\_\_\_\_

**Corrective Action Plan:** The Police Department will follow the recommendation of the auditor and if tax is inadvertently charged, the Pcard holder will provide a tax exempt certificate if need be to the vendor and make sure the tax is credited back on the Pcard.

**Completion Date:** 7/27/11

**Responsible Manager:** Carolyn Bailey

3. **Golf Courses – Other Expense:**  
**Weak Internal Controls for Concessions and Pro Shop**

**Criteria:** ICCMTM (Internal Control and Compliance Manual for Tennessee Municipalities) requires entities to establish and maintain accurate records, a good internal control structure, and effective computer controls.

**Condition:** Internal Controls and Recordkeeping:

- The Golf Course Manager utilizes Active Network computing software to create the cost of goods sold and year-end inventory valuation for the concessions and pro shops at both Swan Lake and Mason Rudolph. However, there is no clear audit trail as to how the software accomplishes these tasks.
- The Swan Lake concession area is not secured; the roller door is unlocked.
- Swan Lake catered food does not have adequate food distribution control procedures.
- Inventory for food and non-food retail items are commingled in the pro shops.
- Food consumption data is not formally tracked.
- Sales taxes are not being properly applied for both food and non-food items at both golf courses.
- Swan Lake concession cash register does not calculate sales tax correctly.
- There is no written business plan in effect for each function of the golf courses.

**IT General Controls:**

- There is no data/hardware/software backup provided for either golf course location.

**Cause:** Operating the concessions is fairly new to the golf courses as they started operating the concessions in March 2011; prior to that it was contracted out and the golf courses received a share of the profits. Most of the conditions listed above are a result of a lack of awareness of the problems and issues involved.

**Effect:** Weak controls and weak recordkeeping can result in operational inefficiencies. Decisions are made on inaccurate information causing unnecessary losses. There is an increased risk of fraud and misappropriation of assets when controls are weak. Unnecessary time and expense is incurred when electronic information is lost and not easily recoverable.

**Recommendation:** Implement policies and procedures to address each of the items listed in the Conditions above. Consult someone with concessions

experience to provide training on how to cost, track and record food inventory and price food items.

**Management's Comments:**

Agree  \_\_\_\_\_

Disagree  \_\_\_\_\_

**Corrective Action Plan:**

We have already addressed some of the problems found during this audit;  
We are now closing the roller door in the concession area and it will be secured.  
We have decided not to cater food at this time so that will no longer be a control problem.

We have a spread sheet now to track our daily food sales in each category.

Sales tax in both the pro shops and Swan Lake concession will be correct certain food items. (New cash registers being installed).

Still working with IT on backup for the POS systems for both courses.

Completion Date: Internal control findings: completed; IT finding: resolution underway

Responsible Manager: Jeff Vaughn Manager, Clarksville Golf Courses

If you have any questions regarding the information in this audit please contact the Internal Audit Department at 931-648-6151.