

January 9, 2015

Audit Committee Members
Mayor Kim McMillan and City Council Members
Clarksville, Tennessee 37040

Executive Summary of Senior Management Expense Audit - #1307

The following is an executive summary of the objectives and conclusions of the Internal Audit report on the senior management expenses for the period January 1, 2011 through December 31, 2012. The full audit report is attached and contains additional details about the findings and recommendations as well as more background information.

Objectives of the audit

The objectives of the audit were to determine whether senior management expenses are for a lawful municipal purpose, are properly approved and are properly supported in accordance with City policies.

Brief Background

Each City department, to include the Mayor's Office and the Legislative office, has its own budget against which travel and other expenses are charged. The City has well-defined travel, purchasing and cell phone policies which govern the expenses in those areas. Federal IRS regulations also provide guidelines related to travel and entertainment transactions examined in this audit.

Conclusions of the Report

Our audit of senior management expenses for CY's 2011 and 2012 revealed the following results related to our original objectives.

- The audit identified the following situations in regard to the approval process for senior management expenses:
 - The approval processes in each department are designed to provide proper segregation of duties; the individual who initiates purchases is different from the individual who approves purchases. Audit testing revealed no exceptions to these processes.
 - Munis accounting software has electronic settings which allow department heads to both initiate and approve purchases. This is an internal control weakness related to the design of the permissions in the software. Audit testing did not reveal any instances where a department head both initiated and approved purchases. Details are provided in finding number 4.
- Audit testing identified the following exceptions related to local, state and federal laws:
 - One taxi expense for travel to a meal venue was reimbursed to an employee contrary to City travel policy. The expense was associated with travel to a conference. Details are provided in finding 1.

- One meal expense for three employees at a local restaurant was reimbursed without adequate documentation required by IRS regulations. Details are provided in finding 3.
- Audit testing identified the following situations in which senior management expenses were not properly classified:
 - Eight expenses tested during the audit period which were classified to the Legislative office should have been classified to the Mayor's office. The expenses related to travel costs for the Mayor's staff. Details are in finding 2.
 - One expense tested during the audit period which was classified to the Mayor's office should have been charged to the Facilities budget. The expense related to janitorial supplies purchased for City Hall. Details are in finding 2.
- All senior management expenses tested during the audit were properly supported with documentation on file except the one discussed in finding 3.
- The auditors found no evidence of fraud during the audit, either during transaction testing or from questionnaires distributed to selected City employees.

The audit report recommends that:

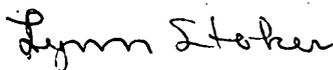
- The Mayor's Office and Finance continue to review travel claims with close attention to taxi reimbursements.
- Finance consider refresher training or other updates for those who travel.
- Finance continue to work with departments to ensure that expenditures are budgeted and classified to accurately reflect departmental expenses.
- CDE develop a business expense policy that addresses meals and entertainment expenses.
- IT set permissions in Munis so that no user can both initiate and approve requisitions.
- IT develop a report that will identify requisitions that have been entered and approved by the same individual in Munis.

Management of the applicable departments agreed with the findings and recommendations in the report, and they are working to correct the identified weaknesses. The complete responses of management are contained in the full audit report.

The auditor would like to thank management and staff of all departments for their help and support during the performance of this audit.

If you have any questions about the audit, the findings, or the recommendations please contact me at 648-6106.

Respectfully,



Lynn Stokes
Director of Internal Audit



INTERNAL AUDIT REPORT

AUDIT TITLE:	SENIOR MANAGEMENT EXPENSE AUDIT
DEPARTMENT:	THE MAYOR, CITY COUNCIL AND DEPARTMENT HEADS
AUDIT PERIOD:	JANUARY 1, 2011 TO DECEMBER 31, 2012

CITY OF CLARKSVILLE
Senior Management Expense Audit
AUDIT # 1307

Robin Manley / Jim McNaughton
Robin Manley, Jim McNaughton - Auditors

Lynn Stokes
Lynn Stokes – Director of Internal Audit

January 9, 2015
Date

**CITY OF CLARKSVILLE
INTERNAL AUDIT REPORT**

**Senior Management Expense Audit
January 1, 2011 – December 31, 2012**

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Internal Audit Report

Origin of the Audit

In November 2009, the Audit Committee approved a policy that requires the Internal Audit Department to perform an audit of senior management expenses every two years, at approximately the halfway point of each administration and at the end of each administration. This audit was conducted pursuant to that policy. The audit was a part of the annual audit plan approved by the Audit Committee for the fiscal year 2013. The audit was initiated in February 2013 but because of a staff shortage was not completed until now.

Audit Objectives

The audit objectives were to determine whether senior management expenses during the period January 1, 2011 to December 31, 2012 were for a lawful municipal purpose, were properly approved, properly classified and were properly supported in accordance with City policies.

Scope and Methodology of the Audit

The audit covered the time period from January 1, 2011 to December 31, 2012. The expenses of the Mayor, the Mayor's staff, and City Council members are included in every senior management expense audit. The expenses of Department Heads are included on a rotating or judgmental basis, and this audit included the expenses of the Department Heads for the following departments: CDE Lightband, Clarksville Fire and Rescue, IT, Finance, Purchasing, and Building and Codes.

The auditors judgmentally selected the following specific expense categories and number of transactions to examine:

<i>Expense Category</i>	<i>No. of Transactions Tested</i>
Travel	7
Memberships and Conventions	40
Professional Services	17

Other Expenses	24
Public Relations	9
General Supplies	32
Technical	1
Other Equipment	9
Training	16
Advertising	5
Cellular Phone	4
Total transactions tested	164

The following table shows the relationship of the samples to the total population:

<i>Department</i>	<i>Population Size – Selected Categories</i>		<i>Sample Size</i>	
	Quantity	Valuation	Quantity	Valuation
Mayor’s Office	383	\$112,298	43	\$64,425
Legislative Office	281	\$416,502	28	\$116,921
Other Selected Departments	11,668	\$62,885,830	93	\$507,457
Total	12,332	\$63,414,630	164	\$688,803

Additionally, questionnaires were sent to accounting personnel in every department to document the controls related to purchases made by department heads. Another questionnaire was sent to judgmentally-selected City employees in every department who were asked whether they had any knowledge of unlawful purchases, misuse of assets, extravagant or abusive spending, use of position for personal gain, bypassing established procedures or engaging in unethical practices within their department. The employees were encouraged to answer the questionnaires anonymously.

Evidence to support our conclusions was gathered from inquiries of management and staff as well as observations of source documentation and tests of the controls surrounding the expenditure 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.

Background

Each department in the City, including the Mayor’s office and the Legislative office, has its own budget against which purchases are charged. Any purchases made by the Mayor, City Council Members or Department Heads are charged against the appropriate budget category.

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, meals and entertainment reimbursements. The City cellular phone policy provides guidance for the use of City provided cell phones.

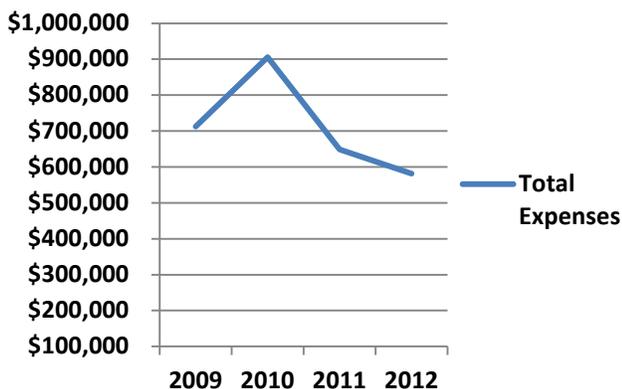
Statistical Information

Four Year Comparison of Expenses – Mayor and Legislative

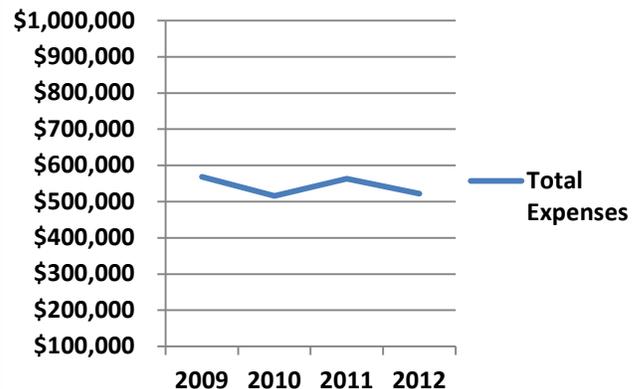
	Prior Administration		Current Administration	
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Total Legislative Office Expenses	\$712,974	*\$905,780	\$648,589	\$581,237
Total Mayor’s Office Expenses	\$568,668	\$515,511	\$562,977	\$521,710

*Includes \$235,000 for contract services for a master plan for the City.

Legislative Total Expenses



Mayor's Office Total Expenses



The four year comparisons reveal that expenses for the Mayor’s Office were similar across the four year period. The costs for the Legislative Office decreased significantly during the four year period.

Noteworthy Accomplishments

Our audit revealed the following strengths in the area of senior management expenses:

- The questionnaires which were distributed to accounting personnel in each department as a part of the audit revealed that the processes for initiating, approving and recording senior management expenses in each department are designed for adequate separation of duties and control. Except for the items shown below in the Results of the Audit, the controls appear to be working as designed.
- The questionnaires mentioned under Scope and Methodology which were distributed to judgmentally-selected employees revealed that the employees were not aware of any unlawful or abusive use of City resources.
- Conversations with the City Purchasing Agent revealed that he reviews Pcard transactions daily and investigates items that appear questionable. This is an added level of control over Pcard transactions.

Results of the Audit

Auditor testing and research revealed the following findings and recommendations.

1. **One travel reimbursement was not adjusted for taxi fare for travel to a meal venue.**

Criteria: City Travel Policy dated December 17, 2008, Section 11 1 (c), (applicable during the audit period):

“Travel to and from meals IS NOT REIMBURSABLE, IT IS INCLUDED IN THE PER DIEM FOR MEALS AND INCIDENTALS.” (The City travel policy has the sentence capitalized for emphasis).

Condition: One out of 43 transactions tested for the Mayor’s office included a travel reimbursement for taxi fare to a meal venue. The reimbursement was related to travel for a staff member who attended a conference in Atlanta.

Cause: The employee likely did not realize that the taxi fare was not reimbursable under the City travel policies. The employee no longer works for the City. The Finance employee who reviewed the travel claim was newly assigned the responsibility at the time and did not catch the error.

Effect: The City overpaid the travel reimbursement to the employee.

Recommendation: The auditors recommend that Finance continue to review travel expenses with close attention to taxi reimbursements. Additionally, Finance might

Recommendation: The auditors recommend that CDE develop a business expense policy that specifically addresses meals and entertainment expenses identifying what is allowable, the required documentation and the tax consequences of not following IRS regulations.

Management Comments:

Agree X

Disagree _____

Corrective Action Plan: In April 2011, CDE had, and continues to have, procedures of documenting the business purposes for such meals. The employee initiating this meal left very shortly thereafter, without providing the documentation when CDE's processes questioned it. CDE will educate employees on its procedures so that an additional potential occurrence is guarded against.

Additionally, the transaction above occurred prior to CDE implementing a P Card program in July, 2011. Since that program was implemented, the City Purchasing Agent reviews P Card transactions daily and investigates items that appear questionable, as do the Purchasing Manager and Division Managers at CDE. CDE will educate these managers so that their review of such transactions will provide additional control.

Finally, CDE is considering the use of a business meal form, to be required any time meals are purchased on the premises or in local restaurants, so that documentation as to the employees, vendors, and business purpose is clearly and consistently provided. Should another such meal occur, the documentation provided will be provided to payroll so that the costs are listed as taxable benefits for the employees.

Projected Completion Date: In place and ongoing.

Responsible Manager: Kim Greene, Accountant; Sean Newman, Purchasing Manager; David Johns, CFO; CDE Lightband

4. Munis system controls related to senior management permissions are not defined in a way that provides proper segregation of duties.

Criteria: For proper segregation of duties, electronic workflow permissions should be set so that no individual has permission to both enter a requisition into the accounting system and approve the same requisition.

Condition: All department heads with access to Munis have permission to both initiate requisitions in the software and approve them. Although our audit testing did not reveal any situation where this happened, the current permissions would allow it to happen and go undetected.

The senior purchasing specialist also has permission to both initiate and approve requisitions in Munis software.

Cause: The IT department has not refined permissions for all employees. The permissions for initiating and approving purchases in Munis are global and, therefore, cannot be adjusted based on individual transactions.

Effect: The permission for any employee to both initiate and approve purchases is a weakness in internal control that creates an environment where undetected fraudulent activity can take place.

Recommendation: The auditors recommend that Munis permissions be set so that no user has the permission to both initiate requisitions and approve requisitions.

Management Comments:

Agree _____ X _____

Disagree _____

Corrective Action Plan: The permission for department heads to initiate requisitions will be removed. Most department heads do not initiate requisitions and, therefore, removing that permission will not hamper City business.

After much discussion it was determined that removing one of the requisition permissions for the senior purchasing specialist would hamper City business and could create a greater risk for potential error than leaving both permissions intact.

The Purchasing department has only two full time employees and they perform purchasing functions at some level for all City departments. IT will work with Munis and/or Tyler Technologies to develop a report that will show all requisitions which are both initiated and approved by the senior purchasing specialist. The report can then be reviewed periodically by the Purchasing Agent and used as a compensating control for the dual permissions granted to the senior purchasing specialist.

Projected Completion Date: March 31, 2015

Responsible Manager: Amie Wilson, Director of IT

Conclusion

Our audit of senior management expenses for CY's 2011 and 2012 revealed the following results related to our original objectives.

- The audit identified the following situations in regard to the approval process for senior management expenses:

- The approval processes in each department are designed to provide proper segregation of duties; the individual who initiates purchases is different from the individual who approves purchases. Audit testing revealed no exceptions to these processes.
- Electronic settings in Munis accounting software allow department heads to both initiate and approve purchases. This is an internal control weakness related to the design of the permissions in the software. Audit testing did not reveal any instances where a department head both initiated and approved purchases. Details are provided in finding number 4.
- Audit testing identified the following exceptions related to local, state and federal laws:
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 - One meal expense for three employees at a local restaurant was reimbursed without adequate documentation required by IRS regulations. Details are provided in finding 3.
- Audit testing identified the following situations in which senior management expenses were not properly classified:
 - Eight Legislative expenses tested during the audit period related to conference travel and registration fees for staff in the Mayor's office. Details are in finding 2.
 - One expense tested in the Mayor's budget for the audit period was for janitorial supplies for all of City Hall which are normally charged to the Facilities budget. Details are in finding 2.
- All senior management expenses tested during the audit were properly supported with documentation on file except the one discussed in finding 3.
- The auditors found no evidence of fraud during the audit, either during transaction testing or questionnaires distributed to selected City employees.

The auditor would like to thank management and staff of all departments for their help and support during the performance of this audit.

If further information about this audit is desired please contact Internal Audit at 931-648-6106.