

March 22, 2017  
Audit Committee Members  
Mayor McMillan and City Council  
City of Clarksville  
1 Public Square  
Clarksville, Tennessee 37040

**Executive Summary of the Senior Management Expense Audit 2015**

The following is an executive summary of the objectives, findings and recommendations related to the internal audit report on Senior Management Expenses for the time period January 1, 2013 to December 31, 2014. The full audit report is attached and contains additional details about the audit results as well as management's responses. The full report also describes the audit methodology and provides more background and statistical information.

**Objectives of the audit**

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

**Brief Background**

Each department in the City, including the Mayor's office and the Legislative office, has its own budget against which purchases are charged. The City has well defined travel, purchasing and purchasing card policies which govern the procedures related to travel and other expense transactions examined in this audit. Additionally, IRS regulations provide guidelines regarding travel, meals and entertainment reimbursements.

**Conclusions of Report**

Our audit of senior management expenses for CYs 2013 and 2014 resulted in the following conclusions related to our original objectives.

- No expenses tested were outside the City's definition of municipal purpose and no material inconsistencies regarding final expense classification were evident. Further, there were no indications of fraudulent transactions identified during the audit.
- Findings in the detailed report relate to:
  - travel form approval documentation
  - inconsistent application of the travel policy

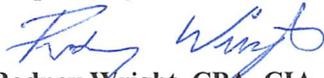
Recommendations were made for improving documented compliance with travel regulations and promoting a consistent, efficient and effective travel process. Management agreed to address the findings and provided complete responses as contained in the full audit report.

One Public Square / Suite 315 / Clarksville, TN 37040  
(931) 648-6106 / Fax (931) 645-7408  
rodney.wright@cityofclarksville.com  
ginger.fussell@cityofclarksville.com  
stephanie.fox@cityofclarksville.com

The Internal Audit department would like to thank all departments for their help and support during the audit. Their positive attitude facilitated the conduct of the audit and provides the necessary environment for process improvements to take place.

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

Respectfully,

A handwritten signature in blue ink, appearing to read "Rodney Wright".

Rodney Wright, CPA, CIA, CFSA  
Director of Internal Audit

cc: Charlie Gentry, Chief of Administration  
Richard Stevens, Communications Director  
Laurie Matta, Chief Financial Officer  
Will Wyatt, Human Resources Director

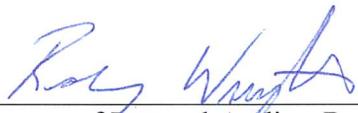


## **INTERNAL AUDIT REPORT**

	<b>AUDIT TITLE:</b>	<b>SENIOR MANAGEMENT EXPENSE AUDIT</b>
	<b>DEPARTMENT:</b>	<b>THE MAYOR, CITY COUNCIL AND DEPARTMENT HEADS</b>
	<b>AUDIT PERIOD:</b>	<b>JANUARY 1, 2013 TO DECEMBER 31, 2014</b>

**CITY OF CLARKSVILLE  
SENIOR MANAGEMENT EXPENSE AUDIT  
AUDIT # 1502**

  
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Auditor – Ginger Fussell

  
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Director of Internal Audit – Rodney Wright

March 22, 2017  
\_\_\_\_\_  
Date

**CITY OF CLARKSVILLE**  
**INTERNAL AUDIT REPORT**  
**Senior Management Expense Audit**  
**January 1, 2013 to December 31, 2014**

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**Table of Contents**

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<b>Origin of Audit.....</b>	<b>1</b>
<b>Audit Objectives.....</b>	<b>1</b>
<b>Scope and Methodology of Audit.....</b>	<b>1</b>
<b>Statement of Auditing Standards .....</b>	<b>3</b>
<b>Background .....</b>	<b>3</b>
<b>Noteworthy Accomplishments.....</b>	<b>3</b>
<b>Results of the Audit</b>	
<b>Findings and Recommendations.....</b>	<b>4</b>
<b>Other Recommendations.....</b>	<b>9</b>
<b>Conclusion .....</b>	<b>10</b>

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## **Internal Audit Report**

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### **Origin of the Audit**

This audit was conducted pursuant to a policy approved by the Audit Committee 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. The audit was a part of the annual audit plan for the fiscal years 2016 and 2017. Audit procedures began in fiscal year 2016. Due to a staff vacancy, procedures were delayed and resumed in fiscal year 2017.

### **Audit Objectives**

The specific audit objectives were to determine whether senior management expenses during the period January 1, 2013 to December 31, 2014 were for a lawful municipal purpose, were properly approved, were 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, 2013 to December 31, 2014. 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. This audit cycle included detailed testing focused primarily on City General Department Heads including: Parks and Recreation, Police Department, Finance, Fire Department, Human Resources, Street Department, Golf, Information Systems, Office of Housing and Community Development, Legal, and Purchasing. Limited procedures were performed in this audit cycle for proprietary funds.

The auditors judgmentally selected specific expense categories and the number of transactions to examine. Sample selection included expenses paid using three different payment methods: direct payments to senior management, payments via Purchasing Card (PCard), and payments directly to vendors. Sample selection included departmental expenses related to senior management travel, as well as other expenditures.

Judgmental sampling was considered the most appropriate and effective sampling method for concluding on our stated audit objectives. We believe that nonstatistical sampling provides sufficient, appropriate evidence to support the conclusions in our report. As some audit samples

were chosen judgmentally from subsets of data, the results should not be projected to the population.

The auditor performed analytical procedures to determine which expense categories to test within each department. The following table summarizes expense categories chosen for sampling, the amounts tested within each category, and the total expense population for selected departments:

**Table 1**

<i>Selected Expense Categories for Selected Departments</i>	<i>Expense Amount Tested</i>	<i>Total Expense Amount</i>
<b>Official Administrative</b>	<b>\$1,000</b>	<b>\$108,879</b>
<b>Employee Training</b>	<b>89,535</b>	<b>619,824</b>
<b>Memberships/Conventions</b>	<b>148,385</b>	<b>382,305</b>
<b>Equipment Rental</b>	<b>1,200</b>	<b>1,793,899</b>
<b>Repair &amp; Maintenance – Equip.</b>	<b>1,669</b>	<b>232,905</b>
<b>Communication &amp; Cell Phone</b>	<b>298</b>	<b>882,456</b>
<b>Advertising</b>	<b>46,816</b>	<b>262,073</b>
<b>General Supplies</b>	<b>192,546</b>	<b>5,348,859</b>
<b>Public Relations/Meals</b>	<b>18,942</b>	<b>123,862</b>
<b>Other</b>	<b>19,033</b>	<b>540,700</b>
<b>Total</b>	<b>519,424</b>	<b>10,295,762</b>

*Source: City General Ledger Data*

The following table shows the relationship of sample size to the population by department:

**Table 2**

<i>Department</i>	<i>Expense Amount Tested</i>	<i>Total Expense Amount</i>
<b>Mayor’s Office</b>	<b>\$73,008</b>	<b>\$142,408</b>
<b>Legislative Office</b>	<b>133,104</b>	<b>354,354</b>
<b>Other Departments</b>	<b>313,312</b>	<b>9,799,000</b>
<b>Total</b>	<b>519,424</b>	<b>10,295,762</b>

*Source: City General Ledger Data*

In addition to the tests described above, 13 travel related transactions were judgmentally selected for further testing of all costs associated with the respective trips. Seven trips sampled were taken by department heads and six were taken by elected officials.

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. We also considered and evaluated the following components of internal control: the control environment, risk assessment, control activities, information and communication, and monitoring.

## **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.

All expenditures of money by a municipality must be made for a lawful municipal purpose as defined by City Code and state law. Documentation should be sufficient to determine that the expenditure was for a municipal purpose.

The City has well defined travel, purchasing and purchasing card policies which govern the procedures related to travel and other expense transactions examined in this audit. The City travel policy, revised February 19, 2013, includes instructions and examples of approved forms for obtaining travel approval and requesting travel advances prior to travel, as well as filing subsequent travel claims for reimbursement. Additionally, IRS regulations provide guidelines regarding travel, meals and entertainment reimbursements.

## **Noteworthy Accomplishments**

**Specific to senior management expenses Internal Audit concluded:**

- There was no indication of fraud or abuse.
- Questionnaire respondents reported no awareness of purchases charged to a department that were not for use by that department.
- Several controls tested were found to be operating effectively.

**The audit concluded the following not limited to the area of senior management expenses:**

- During and subsequent to the audit period, the City has demonstrated commitment to continuous improvement by revising policies and procedures as well as conducting training to improve overall expense processing and reporting.

- More recently, the City has enhanced a formal process of risk assessment and has improved City-wide internal control documentation.

## **Results of Audit**

The following findings and recommendations are based on the Auditor's testing, research and discussions with various employees.

### **1. Travel form approval documentation needs improvement**

#### **Criteria:**

##### **Travel forms and approval documentation**

Standard travel forms are provided by the City Finance and Revenue department as a means of documenting approvals in compliance with Travel Policy to include a pre-trip "Travel Authorization and Travel Advance Request" form and a post-trip "Travel Claim for Reimbursement" form.

The City's travel policy designates approval authority as follows:

##### **Pre-trip approval authority:**

- The Mayor, or his authorized designee, shall authorize and approve all department heads', board members, elected and appointed officials' travel (Section 4, Item 1)
- Employees who engage in official city travel must secure proper approval(s) prior to a trip. (Section 4, Item 2)

##### **Post-trip approval authority:**

- Department heads' and elected officials' claims for reimbursement must be approved by the Mayor and thereafter the Commissioner of Finance and Revenue. (Section 8, Item 2)

The City of Clarksville's travel plan is an accountable plan, therefore the requirements of the Internal Revenue Code as may be amended and IRS publication 463 as it relates to business travel and business expenditures will be met. (Section 3, Item 3)

According to IRS publication 463 for an accountable plan, all amounts received as advances, reimbursements or allowances must be accounted for with required documentary evidence within a reasonable period of time. Documentary evidence, together with records (such as an expense statement) should support each element of an expense, and should complement each other in an orderly manner. Records should include charges to an employer by credit card or other method.

##### **General expense approval documentation**

All municipal disbursements regardless of accounting procedures must be supported by adequate documentation. Disbursement authorization indicates that the expense is deemed proper for payment processing.

**Condition:**

The following was noted regarding travel form approval documentation for the Human Resources department:

- **Pre-trip travel form** - For one out of three trips tested, the request for travel authorization for the Human Resources (HR) director was submitted and approved several months in advance. Transportation cost was uncertain at the time of submission and was not estimated on the travel authorization request. Airfare was later booked and paid by purchasing card within the HR department despite the fact that no transportation cost had been included in the estimated costs on the approved travel authorization form.
- **Pre-trip form correction** - After trip completion, estimates on the original approved travel authorization form were corrected by the HR department to actual amounts recorded on the final claim form. While updates to pre-trip estimates are not required, the department felt it was necessary to reconcile the pre-trip and post-trip amounts. As a result, the file documentation included an approved form containing strikethrough corrections, with no indication that the original approvers were aware of the revisions to the authorization form.
- **Post-trip travel form** - The final claim form submitted for approval did not include costs for event registration paid immediately prior to the event and did not include costs for the first night's stay paid months in advance. Both were paid by purchasing card. The invoices for each were properly submitted and attached to the claim form; however, the cost was not accounted for in the summary of trip expenses on the final claim form. Costs of the completed trip calculated by the auditor exceeded the amount originally estimated by \$867.
- **Other travel forms** - Other HR travel forms were noted by the auditor to be completed by hand using a printed version of an electronic form modified by correction tape to enable handwritten entry. The modifications made it difficult to determine when, or what changes were made in relation to the timing of approval signatures.
- **Form processing** – The travel forms above were accepted by the Finance department for payment processing on the basis that the underlying documentation was adequate to support trip expenses according to travel policy and IRS requirements. Travel forms with strikethrough corrections and manual input over correction tape were not disallowed by the Finance department. For the post-trip travel form noted above, Finance did not identify that the supporting invoices attached to the form were greater than costs summarized on the form.

**Cause:**

- **HR department:**  
Early submission of the request for travel authorization made it more difficult to determine costs such as airfare when the form was originally completed. The department was of the understanding that the authorization form should be updated before submitting the final paperwork at the completion of the trip. Even though the invoices were attached, two costs were overlooked when completing the final claim form. Manual correction or completion of travel forms is sometimes deemed more efficient.
- **Finance department:**  
For travel claims, the focus is primarily on substantiating expenses with receipts, and determining that costs for which reimbursements are due the traveler are properly

included on the claim form. Where reimbursements are not due directly to the traveler, such as trip expenses paid by purchasing card, requirements for including costs on the travel claim form are not as clear. There is no established protocol or guidance for documenting corrections on travel approval forms.

**Effect:**

- Lack of detailed travel form completion could hinder operational goals, as well as IRS requirements for complementary records and documentation.
- The integrity of City-approved documents can be questioned when form modifications do not properly document the reason for revisions and the approver's agreement with revisions.

**Recommendation:**

Department heads should complete pre-trip travel authorization forms on a timely basis using estimated costs for each reasonably expected category of trip expense. Departments and travelers should strengthen controls to ensure that all trip costs are accumulated and reported on post-trip travel claim forms that are supported and complemented by receipts.

Finance should establish general protocol for accepting travel forms and for accepting corrections on approval forms. Enhance departmental training accordingly. Management should consider establishing a threshold over which actual vs. estimated variances are documented and explained to the final claim form approver, without modifying previously approved authorization forms.

**Management Comments: Human Resources**

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

**Corrective Action Plan:** Although the Mayor had provided verbal pre-approval for travel, I will ensure that all travel requests are approved and signed prior to date of travel, and that all documentation is as accurate as possible. Further, no marking through estimates will be made unless they are significantly different than the actual costs. In those cases, a memo will be attached explaining and documenting any discrepancies so that the estimated costs and actual costs are clearly explained.

**Projected Completion Date: 2/23/17**

**Responsible Manager: Will Wyatt, HR Director**

**Management Comments: Finance**

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

**Corrective Action Plan:** Finance is in the process of updating the travel policy as a whole and will include addressing recommendations from this audit. Finance currently does as needed training, will consider a regular training schedule.

**Projected Completion Date: 06/30/18**

**Responsible Manager: Laurie Matta, CFO**

**2. Travel procedures do not consistently align with travel policy in certain areas**

**Criteria:**

The following sections of the City's travel policy address its purpose and basis:

- The City's travel policy provides guidelines to city travelers incurring travel/business related expenses and for payment of travel expenses. The goal is to conduct city business in an efficient, cost-effective manner resulting in the best value for the city. (Section 1, Item 1)
- The City of Clarksville's travel plan is an accountable plan, therefore the requirements of the Internal Revenue Code, as may be amended, and IRS publication 463, as it relates to business travel and business expenditures, will be met. (Section 3, Item 3) See further criteria related to an accountable plan in Finding 1.
- The City of Clarksville will reimburse the actual cost of travel. Travel shall be by the least costly mode of travel. In computing travel alternatives, the cost of airline fares and the per-mile rate established by the General Services Administration will be used for comparison. (Section 11, Item 1a)
- Travel claims will be on approved travel forms provided by the Department of Finance and Revenue. (Section 15, Item 2) See further criteria related to travel forms and approvals in Finding 1.

**Condition:**

Areas were identified where travel policy, forms and procedures did not technically align or achieve consistent results toward meeting internal control and compliance objectives. This finding is not limited to travel of senior management, but addresses City travel in general.

Examples identified include the following, with additional examples provided to management:

- a. **Designees as approvers** - Related to claim forms for senior management travel reimbursements, the following was noted:
  - Two out of 24 travel reimbursements tested were approved by the Chief of Staff as the Mayor's designee. The travel policy allows for an authorized designee for approval to travel (pre-trip); however, only the Mayor is listed as an authorized approver of travel reimbursements (post-trip), prior to Commissioner of Finance and Revenue approval.
  - Twenty out of 24 travel reimbursements tested were approved by the Commissioner of Finance and Revenue's designee, rather than the Commissioner as stated in the travel policy.
- b. **Form submission and approval routing when no payment is due traveler** - Within detailed testing involving senior management travel, the travel form associated with each tested disbursement was completed and submitted for approval. However, based on auditor

**inquiry outside of detailed testing, the following was observed where overnight travel was involved:**

- **Either a travel authorization or a travel claim for reimbursement form was not routed for the Mayor's approval in five cases. In each case, there was no amount due the traveler associated with the respective form that was not completed, and the other form for the trip was approved by the Mayor. This was inconsistent with other travelers who submitted both forms for Mayor approval whether payment was due the traveler or not.**
  - **Two travel authorization forms were submitted for the Mayor's approval after travel occurred, rather than pre-trip. No travel advance was requested for either trip.**
- c. Cost comparison documentation - The travel policy states that travel should be at the least costly mode of travel; however, travel guidance does not address the level of documentation required to evidence determination of the least costly mode.**
- d. Accounting consistency - Testing during this audit indicated differences in how the travel advance receivable account was used by city departments, including advances made to department heads or elected officials.**

**Cause:**

- a. Travel policy, forms or guidance have been revised, but not concurrently.**
- b. Interpretation of travel policies and procedures has evolved over time, without corresponding written guidance. Whether a travel form should be submitted and what level of approval to obtain, when no amount is due the traveler is an interpretation that has changed over the years.**
- c. Requirements for documenting the least costly mode of travel have not been formalized.**
- d. Training has been "as needed" addressing certain problem areas, rather than regular comprehensive training.**

**Effect:**

**Generally speaking, inconsistencies in the application of travel policies and procedures could increase the risk of inappropriate spending and/or noncompliance. Additionally, inconsistency could give the appearance of favoring some travelers over others.**

**Recommendation:**

- a. Review and revise travel policy, travel forms, training materials and process workflow concurrently to improve consistency, compliance, efficiency and effectiveness in travel procedures. Develop a regular monitoring process to ensure that policies and procedures stay current with IRS regulations. Centrally locate updated travel policies, forms and instructions so current versions are readily available to all employees.**
- b. Clarify the policy for travel form submissions to address when each form is required, what level of approval is necessary for each, and their final filing destination(s).**
- c. Provide guidance to travelers on the level of documentation required to show the various alternative travel methods considered.**
- d. Determine the appropriate use of the travel advance receivable account to ensure compliance with generally accepted accounting principles and IRS requirements while facilitating an efficient, accountable travel reporting process.**



## **Conclusion**

**Our audit of senior management expenses for CYs 2013 and 2014 resulted in the following conclusions related to our original objectives.**

- No expenses tested were outside the City’s definition of municipal purpose and no material inconsistencies regarding final expense classification were evident. Further, there were no indications of fraudulent transactions identified during the audit.**
- Issues related to travel form approval documentation and the inconsistent application of the travel policy were addressed with management.**

**Recommendations were made for improving documented compliance with travel regulations and promoting a consistent, efficient and effective travel process. Management agreed to address the issues as previously described in the report.**

**Internal Audit would like to thank the management and staff of all departments for their help and support during the performance of this audit. Their positive attitude facilitated the conduct of the audit and provides the necessary environment for process improvements to take place.**

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