

November 9, 2018

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

**Executive Summary of Senior Management Expense Audit for Calendar Years 2015-2017**

The following is an executive summary of the objectives, findings, and recommendations related to the internal audit report on senior management expenses for calendar years 2015 through 2017. 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 during the period January 1, 2015 to December 31, 2017 were for a lawful municipal purpose, were properly approved, were properly classified, and were properly supported in accordance with applicable laws, policies, and regulations.

**Brief Background**

Each department in the City, including the Mayor's Office and the Legislative Department, 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**

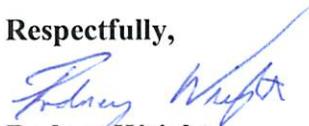
Our audit of senior management expenses for calendar years 2015, 2016, and 2017 resulted in the following conclusions related to our original audit objectives. Expenses reviewed were found to be for municipal purposes with minor exceptions and no fraudulent transactions were identified. Several instances of noncompliance with the travel policy were noted, such as incomplete or unsigned travel forms, reduction of expenses against the travel policy, and documentation that was not compliant with policy. Some other minor exceptions were noted related to expense classifications and documentation for meals, among others.

Key recommendations made included creating a municipal purpose policy, updating the travel policy where necessary, and improving the overall travel process for increased efficiency, consistency, and compliance. The Finance and Purchasing departments should collaborate with other departments to ensure that all parties understand changes made to the travel policy, proper purchasing card use, and proper expense classification. In addition,

Finance should ensure they are performing reviews consistently and to the travel policy. These improvements could be accomplished by utilizing a travel management software.

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

Respectfully,



Rodney Wright  
Director of Internal Audit

cc: Heather Fleming, Chief of Staff  
Laurie Matta, Chief Financial Officer  
Brian Taylor, Superintendent, Clarksville Department of Electricity  
David Johns, Chief Financial Officer, Clarksville Department of Electricity  
Pat Hickey, General Manager, Clarksville Gas & Water  
Fred Klein, Chief Financial Officer, Clarksville Gas & Water  
Jennifer Letourneau, Director, Parks & Recreation  
Keith Lampkin, Director, Community & Economic Development  
Will Wyatt, Director, Human Resources



## **INTERNAL AUDIT REPORT**

**AUDIT  
TITLE:**

**SENIOR MANAGEMENT  
EXPENSE AUDIT**

**DEPARTMENT:**

**THE MAYOR, CITY COUNCIL,  
AND DEPARTMENT HEADS**

**AUDIT  
PERIOD:**

**JANUARY 1, 2015 TO  
DECEMBER 31, 2017**

**CITY OF CLARKSVILLE  
SENIOR MANAGEMENT EXPENSE AUDIT  
AUDIT #1802**

*Stephanie Fox*

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Auditor – Stephanie Fox

*Rodney Wright*

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Director of Internal Audit – Rodney Wright

November 9, 2018

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Date

**CITY OF CLARKSVILLE**  
**INTERNAL AUDIT REPORT**  
**Senior Management Expense Audit**  
**January 1, 2015 to December 31, 2017**

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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 2018 and 2019.

### Audit Objectives

The specific audit objectives were to determine whether senior management expenses during the period January 1, 2015 to December 31, 2017 were for a lawful municipal purpose, were properly approved, were properly classified, and were properly supported in accordance with applicable laws, policies, and regulations.

### Scope and Methodology of the Audit

The audit covered the period from January 1, 2015 to December 31, 2017. 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's detailed testing included Clarksville Department of Electricity, Clarksville Gas & Water, Parks & Recreation, Finance, Human Resources, Golf, and Community & Economic Development.

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 expenses.

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 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 departments to test during this audit cycle and which general ledger expense categories to test within each department. After departments were selected for review, additional expenses were selected for review from pcard transactions and senior management vendor payments.

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 expense 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

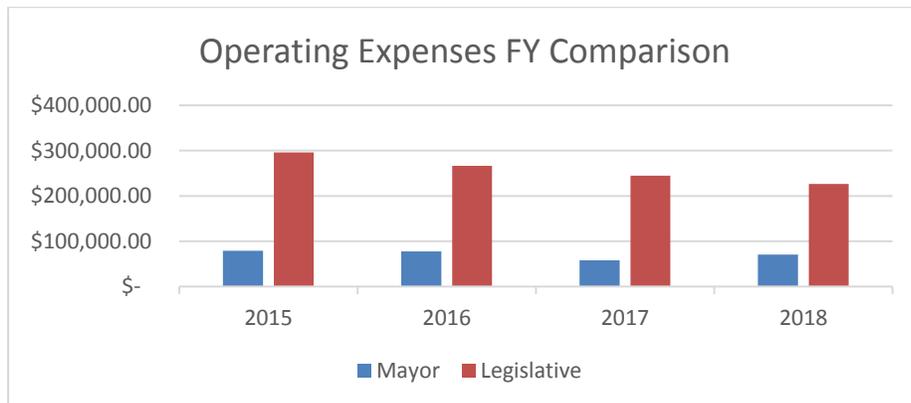
Each department in the City, including the Mayor’s Office and the Legislative Department, has its own budget against which purchases are charged. Any purchases made by the Mayor, City Council members, or Department Heads are charged against the appropriate budget category. Through the accounts payable process, Finance reviews transactions to make sure they comply with existing policies.

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 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 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.

### Statistical Information

As operating expenses of the Mayor’s Office and Legislative Department are the focus of the senior management expense audit, below is a comparison of operating expenses over the fiscal years that comprise the audit period. The Mayor’s Office expenses are relatively stable, while Legislative expenses have trended downward from approximately \$300,000 in 2015 to approximately \$230,000 in fiscal year 2018, an approximate 24% expense reduction.



Source: City General Munis

## **Noteworthy Accomplishments**

Specific to senior management expenses, Internal Audit concluded:

- There was no indication of fraud or abuse.
- Several controls tested were found to be operating effectively.

The Finance Department is currently in the process of updating the travel policy to address issues noted in prior senior management expense audits. Additionally, the department is considering creating a municipal purpose policy, which would address particular types of expenses with more specificity.

## **Results of Audit**

Auditor testing and research resulted in the following findings and recommendations.

### **1. Travel policy noncompliance**

#### **Criteria:**

The City's travel policy provides requirements to city travelers incurring business related travel expenses and for reimbursement of travel expenses. Primarily, the travel policy specifies that all expenses incurred shall be for a legitimate business purpose. The policy outlines a travel process, which includes both travel authorization and travel claim forms, and outlines documentation requirements to ensure travel is conducted in an efficient, cost-effective manner.

#### **Condition:**

Through the audit process, we reviewed 80 trips for elected City officials and employees and noted several instances of noncompliance with the travel policy. Instances of noncompliance were as follows:

- Issues such as missing signatures or untimely completion of travel authorization or travel claim forms were noted on 70 trips.
- For one trip, a taxi was expensed for transportation to an event sponsored by a vendor. This expense should have been paid by the employees.
- Early bird check in fees were paid on flights for 13 trips, totaling \$340.
- Expenses for reimbursement, such as meal per diems or airport parking, were reduced contrary to the travel policy on 14 trips.
- Documentation required by the policy was not included for 13 trips.
- For one trip, meal per diems were paid in duplicate, totaling \$70.50.

#### **Cause:**

The travel process is cumbersome, mostly manual, and requires a significant amount of administrative time for both the traveler and Finance to process a trip properly. Additionally, Finance has updated processing practices but has not updated the travel policy to reflect those processes causing inconsistencies in interpretation of the policy by the departments and inconsistent enforcement of the policy by Finance.

#### **Effect:**

Travel policy noncompliance is noncompliance with the City Code. Inconsistent enforcement of the policy results in reimbursement for noncompliant expenses causing overpayments and potential

damage to public perception. Additionally, inconsistent enforcement of the policy can also cause the denial of compliant reimbursements and inconsistent policy interpretation by the departments resulting in inefficiencies in processing reimbursement requests.

**Recommendation:**

The travel policy should be updated to reflect the current process and correct dated or incorrect language in the policy. The policy should also require a Finance review of the travel authorization form prior to travel. Finance should consider reworking the entire process to streamline and improve efficiencies in processing. For example, create a simpler approval process for day travel, which does not require an overnight stay, process travel advances only over a certain amount or only process travel advances at regular intervals to reduce processing costs, and lastly, train departments once the policy is updated to reduce time spent on corrections. Much improvement in the process could be made with the appropriate travel management and expense reporting software. Software may be able to allow electronic reporting and approvals to reduce processing time, notify travelers when particular forms are due, and/or alert travelers when they may be incurring a nonreimbursable cost.

Absent a software program to aid in strengthening controls to ensure compliance with the travel policy, the City's Finance department should strengthen the review process to identify instances where duplicate or improper payments could be made. Any departures from the policy should be adequately documented with explanations of the reason for departure.

We also recommend that Finance develop a "Municipal Purpose Policy" which supplements the vague guidance regarding municipal purpose available in Tennessee Code Annotated and City Code. This policy would promote consistent treatment of expenses, and allow the City to address areas where municipal purpose may not be as well defined.

**Management Comments:**

Finance has no control or way of knowing if a department plans on having an employee on travel, unless they forward the travel form to us for review. In cases where a travel advance is requested, Finance should always review and approve prior to processing the payment. Often, Finance finds out after the travel is completed and we go back to the department to provide the appropriate documentation. We have and will continue to provide guidance and training on the policy to the departments. Finance is in the process of reworking the entire travel policy and process to include limiting travel advances either entirely or only in excess of a certain dollar threshold. We are currently reviewing and demoing travel software with approval processes included. If we can restrict or stop unauthorized expenses on the front end the process should be easier. The current process is extremely time consuming and extremely vulnerable to human error.

To address specific items reported:

- Air travel has changed dramatically during the audit period, the early bird check in fees, wifi and baggage fees are just a few new charges. Some fees were incurred prior to Finance realizing this was occurring. Once we became aware of the situation, we communicated to the departments that this is not a necessary expense for the traveler to arrive at their destination. Early bird is considered a personal convenience. Section 6 of the travel policy states anything for personal convenience is considered personal travel.

- Airport parking is another item that has changed during the audit period, economy and off-site airport parking has become available. Section 11(a) says travel is reimbursed at the least costly amount and the traveler will not be reimbursed for the difference between what the traveler paid and the least costly method. This is the section we have applied to airport parking, by not typically reimbursing for valet or long term, but reimbursing at the economy rate. The section of the travel policy stating reimbursement for airport parking will be at actual cost will be updated to address this discrepancy.
- Section 7 also discusses personal use and reimbursement only if something is necessary to complete the business travel. Finance has applied this section to the adjustments mentioned.

Finance continually strives to receive appropriate documentation from departments for travel. We have pcard invoices outstanding for months attempting to receive documentation from departments with constant follow-up.

Agree           X          

Disagree \_\_\_\_\_

**Corrective Action Plan:** Update the travel policy and continue demoing travel software. Our preference is to implement a new software with the amended policy.

**Projected Completion Date:** As soon as practicable. Once brought to Council for approval, we will schedule department trainings on all aspects of the policy and the software (if applicable).

**Responsible Manager:** Laurie Matta, CFO

## **2. Purchasing card policy noncompliance**

### **Criteria:**

The pcard policy specifies that the pcard shall not be used for personal purchases. Additionally, following a revision in July 2016, the policy prohibits use of personal rewards numbers when using a pcard.

### **Condition:**

There were five trips where personal purchases on pcards occurred. Notably, all of these personal expenses were fully reimbursed to the City either prior to travel or during the travel claim process. These included (1) three instances of a department booking travel for the department head's spouse, (2) one instance of payment of baggage fees for a council member's spouse, as well as an in room movie on a hotel bill, and (3) personal charges for a phone call and bottle of water on a hotel bill for a department head.

In addition to those purchases, personal rewards numbers for flights or hotels were used when booking travel on pcards for six out of 33 trips reviewed that occurred after the rewards number policy change. All of these instances were after the policy was updated in July 2016.

**Cause:**

In the case where travel is booked for a department head's spouse, the pcard is used for convenience in making travel arrangements. The department has indicated that this is a common practice and since the costs are fully reimbursed, the department saw no issue with using the pcard.

Purchases related to the council member and department head noted above appear to be an isolated misuse of a pcard; therefore, this was likely an oversight on the part of the purchasing cardholder who paid these expenses.

As the policy changed during the audit period regarding rewards numbers, departments may have been unaware that rewards numbers could no longer be used when using the pcard.

**Effect:**

Although the personal purchase transactions reviewed during testing resulted in no monetary impact to the City (as all funds were properly reimbursed), using pcards in such a manner increases the risk of impropriety and unintentional failure to reimburse all costs.

The use of rewards numbers may result in employees who travel receiving a minimal monetary benefit from airlines or hotel chains, possibly resulting in excessive travel to accumulate rewards benefits; however, the travel approval process would likely prevent this type of abuse.

**Recommendation:**

Finance and Purchasing departments should work with departments to ensure they understand the prohibition of these types of transactions, as well as the risks assumed by the City when engaging therein. Purchasing should also communicate to departments that although funds may be reimbursed, the initial purchases are specifically contrary to the pcard policy. Increased communication between travel and pcard processes is necessary to ensure policy compliance related to personal purchases. More open communication in this area would improve the consistency of disciplinary actions, when necessary, and result in a more streamlined and cohesive process.

**Management Comments:**

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

**Corrective Action Plan:** I've talked to the department in question regarding the booking of the spouse's flight on the pcard. It was decided that the employee will use a personal credit card when booking a flight for his spouse and in turn submit his credit card statement as backup for the purchase. I'm not aware of the other instances where personal purchases for baggage fees or movies were purchased on the pcard. Travel is reviewed by employees within the Finance Office for compliance. Those purchases were not relayed to me. Purchasing will work with the Finance Office to ensure future personal purchases relating to travel are relayed to the Purchasing Department so we may take the appropriate action against the employee.

**Projected Completion Date:** December 31, 2018

**Responsible Manager:** Camille Thomas

**3. Expenses were misclassified between departments and object codes**

**Criteria:**

In accordance with generally accepted accounting principles, financial transactions and events should be budgeted and recorded in the department and account that accurately reflects the nature of the expense.

**Condition:**

While all the expenses noted below were for a legitimate, municipal purpose and were included in the City's budget, they were not properly classified, either between departments or between object codes.

Three expenses totaling \$486.61 were misclassified between the following object code classifications: 4322 – Memberships & Conventions, 4580 – Travel, and 4630 – Public Relations.

Two expenses totaling \$9,220 were misclassified between the Mayor's Office and Legislative budgets.

**Cause:**

Due to the limited number of misclassifications found, it appears that these were the result of oversight during the processing of those expenses. While these misclassifications were not discovered during the normal review process, the expenses within the department level misclassifications were placed in the correct budget in subsequent occurrences.

**Effect:**

The object codes listed above are immaterially misstated as a result of the three expenses identified as misclassified. The cumulative effect of the department level misclassifications is that \$9,020 of expenses were included in the Mayor's budget, while those should have been in the Legislative budget.

Ultimately, the effect of all the misclassifications noted above is immaterial to the overall account balances and department budgets.

**Recommendation:**

Finance should work with departments to ensure that expenses are budgeted and classified to accurately reflect the nature of the transaction.

**Management Comments:**

Agree       X      

Disagree \_\_\_\_\_

**Corrective Action Plan:** We have scheduled several AP training classes for departments and also send communicative emails if there is an interim change in classification. We believe the misclassifications noted have been due to staffing changes. Over the years there have been many questions related to what belongs in the Legislative budget versus the Mayor's budget. The

question we typically ask in determining which department should record the expenditure “is this a benefit to the entire City?” If so, then it belongs in Legislative. Finance has 3 levels of control for expenditure classification within our department prior to payment; I believe this was an honest mistake likely due to the confusion between the two departments. Will discuss and clarify with our 3 levels of review for future payments.

**Projected Completion Date:** Completed

**Responsible Manager:** Laurie Matta, CFO

#### **4. Other findings and recommendations**

**Criteria:**

In accordance with the City Charter, Article IV, Section 1, The Mayor shall execute all deeds, bonds, and contracts made in the name of the City.

Per Finance, when business meals are purchased, documentation should include a list of attendees and the business purpose of the meeting.

**Condition:**

- One “Quote and Training Agreement”, determined to be a contract by the City Attorney, reviewed was not signed by the Mayor.
- Meals purchased do not always have the appropriate and required documentation.
- There are inconsistencies between departments in certain areas, such as when paying for overnight stays in Nashville or purchasing meals.

**Cause:**

- Department management did not interpret the Quote and Training Agreement to be a contract and did not forward the agreement to the Mayor for signature.
- Departments do not always attach the appropriate documentation for business meals. In the instances noted, Finance did not obtain additional documentation from the departments.
- There are no policies that specifically address when these expenses are appropriate. Lawful, municipal purpose regulations are purposefully vague. Therefore, each department is somewhat different in their interpretation of appropriateness of these expenses.

**Effect:**

- When contracts do not go through the established process of Legal Department review and Mayor signature, the resulting contract could be unfavorable to the City or place the City in a legally risky position. This could lead to potentially significant financial loss.
- Lack of appropriate documentation for business meals could lead to unnecessary meals being purchased or meals being purchased for non-business reasons, which if present could erode public trust.
- Treatment of similar expenses is inconsistent among departments.



**Key recommendations made included updating the travel policy where necessary and improving the overall travel process for increased efficiency, consistency, and compliance. The Finance and Purchasing Departments should collaborate with other departments to ensure that all parties understand changes made to the travel policy, proper pcard use, and proper expense classification. In addition, Finance should ensure they are performing reviews consistently and to the travel policy. These improvements could be accomplished by utilizing a travel management software.**

**The auditor would like to thank the Finance staff and other departments tested 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.**