



STATE OF TENNESSEE
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DEPARTMENT OF AUDIT
DIVISION OF MUNICIPAL AUDIT

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Division of Municipal Audit

July 29, 2003

Mayor Don Trotter
City of Clarksville
102 Public Square
Clarksville, TN 37040

Dear Mayor Trotter:

I was pleasantly surprised and pleased at the attention you and members of the city council devoted to Mr. Art Sparks, CPA, as he presented his firm's report on their review of the city's internal controls. However, many of the issues he addressed gave me reason to have great concerns regarding the day-to-day operations of the financial affairs of the city.

Mr. Sparks stated that two of his recommendations should be given serious consideration by the council for immediate implementation. The city's internal auditor should be made administratively responsible to an independent audit committee and the establishment of centralized purchasing for the city. I cannot overemphasize my agreement with his recommendation. In my opinion, if allowed to function as they should, both positions would recover their cost in savings to the city several times over on an annual basis.

In re-establishing an independent audit committee, I recommend that the committee consist of at least five and no more than seven members to be appointed by the mayor and confirmed by the council. The majority of the committee members should be from outside of city government. I cannot emphasize the importance of the fact that each of the members should be qualified and realize the immense responsibility that comes with the position. Their involvement in the development and implementation of new policies and procedures will be critical to their success.

The adoption of policies and procedures is not a cure-all without empowering individuals with the authority to implement said policies and procedures and then holding them accountable. Without empowering an individual with both the responsibility and the authority to carry out the policies and procedures, they will fail. Even then, if they know that they will not be held accountable, all policies and procedures will not be implemented.

Mayor Don Trotter
City of Clarksville
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I am also in agreement with Mr. Sparks in that I am of the opinion that both the city's purchasing policies and budget process are not in compliance with state statutes. Legal counsel should be consulted in order to determine the appropriate action the city should take in both of these areas. The fact that paving contracts were allowed to be awarded without competitive bidding based on the assertion that they were contracts for professional services is a blatant example of the abuse occurring in city's purchasing practices.

You, as mayor, and the city council have taken a tremendous first step in addressing the disarray of the fiscal affairs of the city. You willingly asked for an outside review of the internal controls for the entire city. You employed a firm that has more experience in auditing local governments than any other firm in the State of Tennessee. They have "been there, done that." In my opinion, they have the experience and professional personnel to accomplish the task for which they were hired. Their report is a first step. What happens as a result of their report will determine how serious you and the members of the council are about improving the financial affairs of the fifth largest city in the State of Tennessee. The fact that as of this date, the city's financial audit for the year ended June 30, 2002, has yet to be completed points out the urgency of strengthening the fiscal affairs of the city.

Serious consideration should also be given to a comment made by one of the council members during the question and answer session following Mr. Sparks's presentation. The councilman stated that he thought it was a good idea that after a period of time, maybe a year to eighteen months, Mr. Sparks should be invited back to determine the progress made in implementing their recommendations. I am of the opinion that such action would be most beneficial to the mayor and board and should be given serious consideration.

Another question raised by a member of council was whether the "state" would review the operations of the city as a result of the report on internal control. The answer is that I do not have any intentions at this time to initiate such action. I feel that any such review would only confirm what has already been reported. However, rest assured that I am deeply concerned with the results of the review and will closely monitor the board's actions toward addressing the problems noted in the report.

If I or members of my staff may be of assistance in discussing ways to address any of the issues raised in the report, please do not hesitate to call.

Very truly yours,

Dennis F. Dycus, CPA, CFE, Director
Division of Municipal Audit

CITY OF CLARKSVILLE

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INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES

June 12, 2003

City of Clarksville
Council Members
Mayor Don Trotter
One Public Square
Clarksville, Tennessee

We have performed the procedures enumerated below, which were agreed to by the Mayor and City Council of the City of Clarksville, solely to assist you in evaluating the procedures mentioned below. The agreed-upon procedures engagement was conducted in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose of which this report has been requested or for any other purpose.

OBJECTIVES AND PROCEDURES

1. **Objective:** To evaluate internal controls over accounting and disbursement entries.

Procedures: We documented internal controls by conducting interviews, completing checklists and reviewing existing job descriptions. We tested detailed transactions for the following attributes: A) proper and timely use of purchase order B) bid procedures C) did bid specs allow for competitive bidding D) authorization of payment E) duplicate payments F) payment of sales tax G) sole source documentation and H) emergency purchase documentation.

City General

Finding 1-1: The purchasing policies adopted by the City do not appear to be in compliance with state law. Tennessee Code Annotated 6-56-302 exempts municipalities with charter provisions or private act requirements governing competitive bidding and purchasing from following purchasing procedures as detailed in the state law. However, upon review of city charter there are not sufficient detailed purchasing provisions in the charter. The city charter states that the council shall by ordinance establish such bidding and purchasing regulations or procedures, or both, as it determines to be necessary. According to our discussion with the staff attorney at the Division of Municipal Audit there is not sufficient detail in the charter document to satisfy state law. When the detail is not adequate purchasing procedures default to state law.

Recommendation: We recommend the City Attorney contact the Comptroller's Office to discuss this issue and if necessary consult the Attorney General's Office of an official opinion.

Finding 1-2: Purchase orders in most cases were completed after the goods and services were already purchased. Based on our testing we found 871 purchases totaling \$20,535,237.70 that were made prior to the purchase order being completed or without a purchase order at all.

Recommendation: The *Internal Control and Compliance Manual for Tennessee Municipalities* (The Manual) issued by the Comptroller of the Treasury states in Title 2 Chapter 1 Section 3 that the municipality's purchasing policy should require use of prenumbered purchase orders. Section 5 goes on to state that the policy should require approval of purchase orders by the finance officer or his designee to indicate that there is sufficient balance in the unexpended appropriation to allow the expenditure and to indicate that the expenditure is in accordance with the purpose of the appropriation. We recommend that purchase orders be used properly. They should be issued prior to purchase of goods and services and utilize budgetary controls established in the accounting system.

Finding 1-3: No price quotes, bids or professional service and sole source documentation was obtained for 43 purchases tested, totaling \$112,248.21. Some sole source purchases were made based on information obtained in previous years, and recurring expenditures exceeding the quote and bid limits were not properly executed.

Recommendation: We recommend that all quotes, bids or documentation for professional services and sole source be submitted to the purchasing department with the purchase order prior to purchase of goods and services. Sole source providers should be re-evaluated every year. Recurring expenditures should be bid or quoted if the total cost for the year is expected to exceed bid limits. Written contracts should be obtained from the vendor or service provider and awarded annually. Failure to follow purchasing procedures could result in excessive spending of taxpayer dollars.

Finding 1-4: The accounts payable subsidiary ledger does not reconcile to the general ledger.

Recommendation: The Manual states in Title 1 Chapter 1 Section 3 that municipal officials should ensure that subsidiary ledgers are used to maintain individual account transaction details to support the total in the general ledger control account. All subsidiary ledgers should be reconciled to the general ledger monthly or quarterly and any material differences investigated. The reconciliation should be performed by accounting staff in the finance department.

Finding 1-5: The finance department was not able to provide the our staff with a complete list of authorized credit card holders. A list of card holders had to be requested from the credit card company by the finance department. We were given copies of e-mails from the finance office stating there was no credit card policy. A credit card policy could not be found initially, however, a memo related to credit card usage was provided to us prior to completing the engagement.

Recommendation: We recommend that strong controls over credit cards be put in place. A credit card policy should be developed and adequately communicated to all city employees using a credit card. The lack of control over credit cards can result in excessive spending and misappropriation of city funds.

Finding 1-6: Several instances were noted where vendor checks were being held for pick-up or being sent back to the department for pick-up or delivery. During one year 7 checks were held for one vendor totaling \$325,780.32. This practice weakens internal controls over disbursements.

Recommendation: The practice of holding checks should be stopped or a strict policy should be adopted for the pick-up of checks. All vendor checks should be mailed from the finance department and not by the employee initiating the transaction.

Finding 1-7: Fifteen duplicate payments totaling \$3,986.48 were noted. In addition, 8 invoices totaling \$146,593.89 were not properly approved for payment.

Recommendation: The Manual states in Title 2 Chapter 2 Section 3 that officials should ensure that personnel cancel invoices, writing on each one the check number, amount, payment date, and account to be charged before the checks and documentation are submitted for approval and signing. All vendors should be paid by original invoice only and the invoice should be marked as paid (cancelled) at time of payment. Payments should not be made from statements. Purchase orders should be approved only by authorized personnel.

Finding 1-8: Bids were not taken for 2 purchases totaling \$662,007.00. No documentation of council approval could be found.

Recommendation: Purchasing policies should be communicated and enforced to ensure the City is exercising adequate stewardship and accountability of public funds.

Finding 1-9: Controls over recordkeeping of procurement documentation were weak. Based on our testing bids, quotes, sole source and emergency purchase documentation did not exist or could not be found by city personnel for 118 purchases totaling \$ 331,325.75

Recommendation: The Private Acts of 1957 require the Finance Commissioner to have custody of all records, papers and vouchers relating to the fiscal affairs of the City. In addition, the City Code Title 6 Section 102 (d) requires the Finance Commissioner and/or Chief Financial Officer of proprietary fund operations to be the custodian of bids, proposals and quotes. We recommend that the Finance Department obtain and file all bids, proposals, quotes and documentation for sole source and emergency purchases in an organized manner to ensure that all city expenditures are properly supported.

Finding 1-10: Professional services are required to be approved by the Finance and Administration Committee. The committee minutes were too vague to support the approval of many professional services contracts. The minutes noted that professional service contracts were approved for a certain department; however, there was no documentation of the name of the service provider or contract amount. No documentation could be found approving 166 transactions totaling \$8,713,445.88 for the Gas, Water and Sewer Department. We noted 58 transactions totaling \$ 706,997.01 where no documentation of committee approval could be located.

Recommendation: We recommend that minutes to the committee or council meetings contain enough detail to provide adequate support for procurement of professional services.

Finding 1-11: Business tax billing and collections are done by the same person.

Recommendation: The duties of billing and collection should be split between two people to ensure one person does not have control of the entire process from beginning to end.

Finding 1-12: Cashiers closeout their own cash drawers.

Recommendation: Cashiers should close out the drawer of another cashier, not their own.

Finding 1-13: Parking ticket information is entered in two different computer systems and there is no collection policy in place for parking tickets.

Recommendation: Parking ticket information should be entered once. The finance and police departments should investigate the compatibility of software while updating systems. In addition a collection policy should be implemented for parking tickets.

Gas, Water & Sewer

Finding 1-14: Purchase orders were not issued or were issued after the purchase occurred. We noted 164 instances totaling \$2,625,421.14 where purchase orders were not properly used. Payments on contracts for which management stated no purchase orders were required are not included in these instances.

Recommendation: Purchasing policies should be strictly followed and situations where purchase orders are not required should be specified in the purchasing policies. As noted above, the Manual requires the use of purchase orders prior to purchase. Purchases should be made only

after the purchase order has been properly approved. Failure to adhere to prescribed purchasing controls can result in excessive spending and misappropriation of public funds.

Finding 1-15: Bids and quotes were not always obtained prior to purchasing goods or services. We noted 11 purchases totaling \$836,469.97 where bid documentation could not be found or where bids or quotes were obtained after the fact. Failure to adhere to prescribed purchasing controls can result in excessive spending and misappropriation of taxpayer funds.

Recommendation: Bids and quotes should be obtained prior to the purchase of goods or services.

Finding 1-16: Thirty-two emergency purchases totaling \$1,189,012.97 were not reported to the Finance & Administration Committee as required by the City Code Title 6 section 102 (g) (2). The code requires a written report be submitted to the purchasing agent or finance director or CFO within 3 days of the emergency and the Committee should be informed of the emergency purchase at the next regularly scheduled meeting.

Recommendation: Proper procedures should be followed for emergency purchases to ensure the process is not abused.

Finding 1-17: Blanket purchase orders were being used after their expiration date.

Recommendation: Blanket purchase orders should be bid or reviewed annually.

Finding 1-18: Some invoices had noted on them that the vendor would pick up the check. This is a weakness in internal controls over disbursements.

Recommendation: This practice should be stopped or a strict pick-up policy should be put in place. All vendor checks should be mailed by personnel other than the one initiating the transaction.

Finding 1-19: Supporting documentation could not be located for 6 purchases totaling \$58,324.22.

Recommendation: Utility expenses should not be paid without supporting documentation and adequate supporting documentation should be kept on file for all utility expenses.

2. **Objective:** To test internal controls over budget entries and adjustments over \$5,000.

Procedures: We obtained budgets and identified amendments over \$5,000. We also obtained budget amendment files from Finance and ordinance books from the City Clerk. We attempted to trace changes in department budgets exceeding \$5,000 to supporting documentation and ordinance. We were unable to test amendments for reasons detailed below.

City General

Finding 2-1: The budget process does not appear to be in compliance with Tennessee Code Annotated 6-56-202. The city charter does not contain the level of detail required by state law. The law further states that “notwithstanding any other provision of law, no municipality may expend any moneys regardless of their source, except in accordance with a budget ordinance adopted under this section.” Budget amendments between departments are not always approved by city council and the ordinances are not detailed enough to adequately inform council of the movement of appropriations. The ordinance does not specifically identify where the funds are coming from; therefore the budgets are not being properly amended. The Charter states that the Council shall not adopt any appropriations in excess of the available funds, except for an emergency situation as unanimously agreed to by council. Since the budget ordinance is adopted by department or agency this is considered the legal level of control. Therefore, the council should be approving amendments between departments. In addition, the previous Mayor moved major functions from the Parks and Recreation Department to the Street Department without approval of the council. This is a significant change in departmental structure and budgets and should not be done without council approval. The city code gives the Mayor and Finance Commissioner the ability to move appropriations between funds and departments; however this is not in accordance with the charter (Article V Section 3). The Charter requires that budget amendments be approved by two-thirds vote of the city council.

Recommendation: The legality of the City’s budget process should be reviewed by the City Attorney and the Comptroller’s Office. If necessary the Attorney General should be consulted. The budget function should be assigned to staff independent of general ledger control. The assignment of the budget function to one individual will improve consistency in budgeting methods and increase budgetary controls. Budgets give the city legal authority to spend taxpayer funds and the council should be aware of significant changes in the legal budget.

Finding 2-2: Budgetary controls are not functioning properly. Goods and services can be purchased even though there are no available funds in the budgetary line item because purchases are made prior to completing the purchase order. If the purchase order function alerts an employee there are no funds available, the employee has the ability to override the controls and process the purchase anyway.

Recommendation: Budgetary controls need to be put in place to ensure that city funds are not committed without proper and legal appropriation of funds.

Finding 2-3: Budget amendments were not made for capital expenditures. The money spent for the Mobile Data Terminals (MDTs) (\$234,175 on 10/8/02) and software (\$178,397 on 9/12/02) was charged to the 800 MHz capital project fund. The purchases were processed as a sole source and, therefore, were not approved by the council. The funds were originally budgeted for equipment for the 911 center. There was no clear documentation provided to determine if the MDTs were initially intended to be purchased with these funds.

Recommendation: Budget amendments should have been made to move the funds to another capital project account or should have been charged to the appropriate department as capital outlay. City council should be properly informed of significant changes in budgets to ensure funds are spent as originally intended.

3. **Objective:** To evaluate internal controls in fixed asset acquisitions and inventories.

Procedures: We obtained fixed asset listings and tested 260 items from the listing for major departments of the General Fund.

City General

Findings 3-1: We noted that the fixed asset policy was not being applied consistently throughout the city. The capitalization policy states that assets that do not meet the capitalization threshold of \$5,000 but cost \$500 or more and have an estimated useful life of one year or more will be monitored for insurance purposes. However, all departments were not keeping track of the items below \$5,000.

Recommendation: The Manual states in Title 1 Chapter 4 Section 2 that municipal officials should require that all fixed assets are located, identified, and recorded. The record should be retained at the municipality and should include up-to-date purchase and disposal information. An annual inventory should be performed and documented. It goes on to require an annual inventory of sensitive items also. We recommend that the fixed asset policy be clearly communicated to all employees. We further recommend that a system of checks and balances be put in place to catch those items purchased that should be included in fixed asset records. The system should include an annual inventory.

Finding 3-2: The City paid a vendor approximately \$30,000 to perform a fixed asset inventory for preparation of GASB 34. Based on our testing, the inventory information was not reconciled with the City's existing records. The City did not use the information generated by the vendor but used the existing data. Twenty seven items on the list could not be found at the departments. Six obsolete items were on the list and found in the departments and should have been destroyed and removed from the list but were not. Through our detailed transaction testing we found 67 items that were purchased but had not been recorded on the list (or were not specifically identified by serial number therefore could not be verified as being included in the fixed asset records) and several older items in Information Systems could not be located. These include:

- A Compaq laptop computer and an "i pac" (hand held computer) and case totaling \$3,289.91 were purchased by the previous Mayor and his assistant. The laptop computer, "i pac" (hand held computer) and case could not be located. The Chief of Staff for the previous Mayor also purchased a Hewlett Packard Color Printer for \$2,774.11. The printer was assigned to the Mayors Office but it was not on the asset list and could not be located by current employees.

- Also, other evidence was found to document the purchase of another “i pac” by the Information Systems Director on 9/27/01, however; it also could not be located.
- In addition, the accounting software (finding 4-5) purchased for approximately \$400,000 was not found on the fixed asset listing.
- Mobile Data Terminals (61) and software for the police and fire departments (over \$400,000) were not included in inventory for those departments. We were informed that they were included as part of a network however no support could be obtained to break down the communication system amount of \$3,984,845.32.
- Ten computers assigned to Information Systems could not be located. Some of the computers were old and had most likely been discarded; however they were not taken off the asset listing. Others could not be located due to the lack of detailed information in the “new” asset system. There were no model numbers or serial numbers listed on the fixed asset listing. Several Information Systems employees have a vehicle assigned to them. However, only 3 of 6 vehicles were listed in the fixed asset system.

Recommendation: A complete and accurate fixed asset inventory should be performed. The inventory records should be maintained on a regular basis to ensure that inventory of assets is accurate. In addition, all assets should be added to the system as soon as purchase is made regardless of when the assets are put in service.

4. **Objective:** Evaluate internal controls over capital project management

Procedures: We tested numerous capital project expenditures by reviewing contracts, bids, land appraisals and Finance and Administration Committee minutes.

City General

Finding 4-1: Capital Projects in the period under review were poorly managed and controlled. Bid requirements were waived on several projects. Although this is allowed by the City Charter it should not be done. A total of 29 instances totaling \$4,061,005.64 were noted during detailed testing. For instance, we noted a contract with Gateway Electric was approved as a cost plus contract not to exceed \$125,000 for installation of electrical outlets for Christmas decorations. This resulted from a lack of bidders due to the time frame set by the previous administration. However the written contract had no maximum specified and the City paid the contractor \$344,000 for the work. The rates being charged by the contractor were excessive based on other documentation found in vendor files. The project file contained quotes from an employment firm that quoted rates for electricians, electricians’ apprentice and labors. The rates charged by the contractor were double some of the quoted rates and there were no general laborers billed for by vendor. The lowest paid worker was classified as an electricians’ apprentice.

Recommendation: We recommend that a charter amendment be made to remove the provision to waive bids. Waiving bids may in some cases save time but most often it costs the city more money. The potential additional cost to the city was \$219,000. In addition, all contracts should have maximums set in writing and any request for payments exceeding the limit should be verified by the appropriate city official who has specific knowledge of the contract.

Finding 4-2: City purchasing policies allow professional service contracts to be entered into without being competitively bid or requesting proposals. Council minutes also noted an instance where the previous administration was given authority to choose engineers or architects and also negotiate land and right-of-way acquisition. The city has spent millions of dollars on architectural, engineering and consulting services.

Recommendation: We recommend that professional services be obtained through a request for proposal system to ensure that taxpayer dollars are spent wisely.

Finding 4-3: We noted instances of poor project planning and management with purchase and renovation of the One Public Square Building and property located at 135 Commerce Street. As thoroughly detailed in a recent Internal Audit Report the project exceeded the estimated amount by \$1,736,517 (this was over 100% of the estimate). The report details excessive spending on architect's fees and the fact that a contract was signed by the former Mayor prior to proper approval by the Finance and Administration Committee.

Finding 4-4: Another example of poor planning of capital projects involves the 800 MHz radio system purchased by the city. Based on numerous discussions with city personnel it appears the city spent 5 million dollars on a system when they could have gotten an adequate system for significantly less money. The police and fire departments then purchased 61 Mobile Data Terminals (MDTs) to place in patrol cars on October 22, 2002. The MDTs are supposed to enhance the dispatch and communication functions. The City spent over \$400,000 on hardware, software and consulting. However, the computers at the time of our testing had not been installed in the cars. Although the city paid a consultant over \$100,000, they still experienced technical problems with software compatibility.

Finding 4-5: The City also purchased a new accounting software package on state contract for approximately \$400,000. The Gas, Water & Sewer Department did not purchase the same software. The software, at the time of the engagement, had not been installed or implemented. The City has determined the implementation of the software will take substantially more funding.

Recommendation: Projects of this magnitude should be carefully planned to ensure public funds are wisely spent. Renovation of One Public Square Building should have been researched extensively to ensure cost overruns were held to a minimum. In the case of the MDTs one should have been purchased with demo software to ensure all compatibility problems were worked out before spending over \$400,000. The implementation costs should have been considered when the accounting software was purchased and the Gas, Water & Sewer Department should purchase compatible software.

5. **Objective:** To test transactions for the period starting January 1, 1999 to December 31, 2002, to determine compliance with purchasing policy.

Exception: Original documentation was missing for the period beginning January 1, 1999 to June 30, 2000. Management, believing original documents were no longer needed, had the original documents destroyed. Although the records had been electronically scanned much of it could not be read or could not be located due to poor organization and indexing of scanned documents. Consequently, we were unable to perform certain tests for transactions during this period.

Procedures:

- We obtained transactions listing of all items over \$1,000 for the General Fund and Gas, Water and Sewer Department. We tested all transactions (except payroll related, debt and utility expenditures) over \$10,000 and tested a sample of items in the remaining population.
- We utilized purchasing policies obtained from management.
- We observed purchase orders, invoices, bids, quotes, and other supporting documentation.

City General

Finding 5-1: Interior decorating costs of \$12,746 for the previous Mayor's office were not bid.

Recommendation: Proper purchasing procedures should be followed by all departments and city officials.

Finding 5-2: The previous Mayor spent \$24,051.65 on four Christmas parties. The guest list was compared to an employee listing for the 2001 party and out of 277 attendants only 32 were city employees. The Mayor paid the bill and the city reimbursed him for all but 78 people for that one year.

Recommendation: Taxpayer funds should not be used for personal entertainment. If the council chooses to continue to allow Christmas parties they should only be for employees and board members.

Finding 5-3: We noted instances where bid specifications were so specific they did not allow for competitive bidding. For example, bids for painting specified Benjamin Moore paint which limited competitive bids since only one retailer in the City carries this brand of paint. In another instance specifications for a copy machine appeared to be so specific that only one brand could match them.

Recommendation: Title 6 Section 102 (a) of the City Code states that all specifications drafted shall provide for the competitive procurement of goods and services. Specifications for products and services should be of a general nature as to allow for fair and competitive bidding by vendors as required by the City Code.

Finding 5-4: Vendors were paid amounts that exceeded specified bids. The Finance & Administration Committee gave the previous Mayor authority to negotiate with a vendor who was not low bidder on a contract for drainage system inventory (limited to \$300,000). The negotiated price came in under the low bidder and within limits set by the Committee; however a change order was processed which brought the total back up. The total paid exceeded the original low bidder and the limit set by the Committee.

Recommendation: Contracts should be carefully monitored and all change orders should be approved by a member of management familiar with the specific job to ensure charges are valid.

Finding 5-5: Inter-office memos were found that confirmed the 1580 Vista Lane project was started prior to signing a written contract.

Recommendation: City officials should not authorize work to commence until proper approval is obtained and a formal written contract is signed by all parties involved.

Gas, Water & Sewer

Finding 5-6: Paving services were considered professional services in one case then bid out in other cases.

Recommendation: All paving services should be competitively bid and purchasing policies should be applied consistently and fairly to allow for competitive bidding.

Finding 5-7: Bidders were not treated consistently. On some projects bidders were rejected because the bid lacked a drug-free affidavit but other bidders were awarded contracts without the affidavit.

Recommendation: Contracts should be awarded to vendors consistently allowing fair competition among vendors.

6. **Objective:** To review and evaluate the City's organizational structure.

Procedures: Interviewed various city employees and reviewed the city charter, codes and organizational charts.

Finding 6-1: The City has not established an audit committee as required by Chapter 6 of the city code.

Recommendation: We recommend that the council establish an audit committee to insure that the internal audit function operates independently from all other City departments. We further recommend that the Internal Auditor be located in such a manner to promote independence.

Finding 6-2: In accordance with City policy, the departments are purchasing goods and services in amounts below \$10,000 without bids. In some instances this resulted in funds being spent prior to purchase orders being completed and other violations of the purchasing policies as noted above. The partial decentralization of purchasing has also resulted in data entry responsibilities being given to departments without adequate oversight by the purchasing office, which reduces the consistency and reliability of financial information.

Recommendation: The Manual states in Title 1 Chapter 2 Section 1 that municipal officials should establish a simple and flexible organization plan which clearly places responsibility for specific activities upon specified individuals. A structured purchasing department should be established and more control over purchases between \$5,000 and \$10,000 should be exercised.

Finding 6-3: Accounts payable clerks were supervised by the purchasing personnel. The accounts payable clerks have the ability to set up vendors, initiate purchases, post to the general ledger, write and sign checks. Unlimited access to all functions of the accounting system increases the risk of fraud. In addition, sign in names and passwords are commonly known by employees.

Recommendation: The Manual states in Title 1 Chapter 2 Section 2 that municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a complete transaction from beginning to end. The accounts payable function should be segregated from the purchasing function to ensure an employee cannot process a transaction from beginning to end. Controls over the general ledger need to be strengthened by limiting access to only those functions a person needs to perform their job duties. The accounting system should have certain functions limited to ensure validity and reliability of financial data. Sign-in names and passwords should be unique and should be changed on a regular basis to ensure the security of the financial system.

Finding 6-4: The City Engineer/Commissioner of Public Works is hired by the council to oversee public works of the City; however, functionally he is under the supervision of the Gas, Water & Sewer Manager. Article V Section 6 of the Charter gives the city engineer the authority and be chargeable with duties in regard to the following: a) construction, improvement, repair and maintenance of streets, sidewalks, alleys, lanes, bridges, viaducts, wharves, and any other public ways, sewers, drains, ditches, streams and waterworks, and of all public buildings, except for school buildings and school property, of boulevards, squares and other public places. b) Management of all waterworks plant, water mains and natural gas distribution system. c) Charge of making and the preservation of all surveys, plans, drawings and estimates of public works, the cleaning, sprinkling and lighting of the streets and public places, and the preservation of contracts, papers, drawings, tools, and appliances and buildings belonging to the city and placed under its supervision. d) The inspection and approving of the laying out of subdivisions in the city and within five miles beyond the corporate boundaries. The charter goes on to give the council authority by resolution to transfer and distribute to other officials and employees of the

city any part or all of the duties, powers and authority of the city engineer. The city code has organized the public works function into three departments (streets, electric and gas, water & sewer). Each department is supervised by a board or committee. However, Code Section 1-701 says "Except as otherwise specially provided in the Charter or this Code, the city engineer shall have general supervision and control over all public works activities and facilities of the city and shall be responsible for keeping the council/or its committees well informed and advised on all public works matters. We could not determine if the code specifically changed the job duties of the city engineer or just delegated the day to day operations to other officials or committees. It is not clear if the oversight of all public works is still the responsibility of the Commissioner of Public Works/City Engineer.

Recommendation: The City Council should more clearly define the organization of the City's public works functions. A public works department should be established with the City Engineer/Commissioner of Public Works overseeing it. The department might include an engineering division, streets and traffic division and a building and codes division. The capital projects manager and building inspectors should be moved to the engineering division consequently they would be supervised by an engineer. This type of structuring is more in line with the city charter and is the type of structure used by other large cities.

Other Issues Noted During Testing:

Finding O-1: City-wide there is confusion as to the definition of a professional service and abuse of the professional service clause in the purchasing policy. It would appear that favoritism could be shown to certain service providers without proper evidence that they are truly qualified for the work. There is no system in place to monitor the quality of services provided to the city. Various comments were heard while performing tests that indicate that many jobs were substandard and required further investment of funds or untimely delays in projects.

Recommendation: We recommend that all professional services be secured through a proposal process and a written contract be obtained clearly defining the services to be provided to the City. Also, a monitoring system should be developed to ensure the city is getting adequate results.

Finding O-2: During expenditures testing we reviewed cellular phone costs. The total expenditures for cell phones rose from \$184,967 for the 4 year period ending in 1998 to \$618,002 in the 4 year period ending 2002. We realize some of the increase is due to advances in technology over the years but the costs still seem excessive. We reviewed the list of cell phones and noticed a few excessive amounts. Based on an analysis of cell phone costs for the month of February 2003 compiled by city personnel we calculated a departmental average. Assuming the bills exceeding the departmental average by 50% or more were deemed excessive, there were 9 phones with excessive usage. Five of the phones were assigned to a specific person and 4 were only assigned to a district or generic department position such as staff.

Recommendation: We were unable to obtain detailed records prior to completing fieldwork; however, we recommend that the internal auditor follow up on cellular phone usage to determine if employees with cell phones truly need them. Some of the employees with phones are office

staff who do not appear to need cell phones in order to perform their job duties. Phones should be assigned to a specific person if possible. When it is necessary to have an extra phone in a department its use should be monitored to ensure abuse does not occur. A comprehensive policy should be developed for use of cell phones.

General Observations and Conclusions

The city council needs to appoint an audit committee to over see the internal audit function to ensure it operates independently as required by the city charter. The City of Clarksville has experienced significant growth over the past 10 years. As a result, City governments systems and controls have been stressed and have not been adapted as necessary to keep up with the growth. Internal controls have been allowed to deteriorate. The lack of controls has allowed excessive spending to occur. The council also needs to adopt and include in its charter strict purchasing policies which will promote competitive purchasing.

We were made aware of several personnel issues during our interviews with city employees. The issues were outside of the scope of this engagement, therefore; we recommend that management follow up and take any action deemed necessary to resolve the issues.

We were not engaged to, and did not; conduct an examination, the objective of which would be the expression of an opinion on the procedures noted above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City of Clarksville and is not intended to be and should not be used by anyone other than these specified parties.

Dunn, Creswell, Sparks, Smith, Horne and Downing, PLLC