



# CITY OF CLARKSVILLE INTERNAL AUDIT REPORT

Transit Department

Accounts Payable Audit

July 1, 2008 – June 30, 2010

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February 8, 2011

**The Honorable Mayor Kim McMillan  
Audit Committee Members  
Jimmy Smith, Director of Transportation  
Ben Griffin, Commissioner of Finance and Revenue  
One Public Square  
Clarksville, Tennessee 37040**

**Internal Auditor's Report**

**I have audited the Transit Department's accounts payable process for the period July 1, 2008 to June 30, 2010. The audit was conducted as a part of Internal Audit's annual audit plan. The audit focused on reviewing internal controls, determining compliance with applicable laws, policies and procedures and efficiency and effectiveness of the process.**

**I conducted the audit in accordance with generally accepted government auditing standards (GAGAS) as set forth in Governmental Auditing Standards issued by the Comptroller General of the United States with the exception of the peer review. Those standards require that I plan and perform the audit to afford a reasonable basis for my judgments and conclusions regarding the organization, program, activity or function under audit. I believe that my audit provides a reasonable basis for my conclusions.**

**In my opinion, the design of the internal control system surrounding the accounts payable process which was audited is adequate and operational except for the weaknesses noted in the findings. These are outlined in the section of the report entitled Findings and Recommendations.**

**I would like to thank the management and staff of the department for their cooperation during the performance of the audit. Their willing assistance facilitated the audit process.**

**Robin Manley  
Internal Auditor**

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## Internal Auditor's Report

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### Origin of the Audit

This audit was conducted as a part of the annual audit plan and approved by the Audit Committee. The audit was initially begun in fiscal year 2009 but due to other audit commitments completion was delayed until fiscal year 2011.

### Audit Objectives

The audit focused on a review and analysis of the accounts payable process used by the Transit Department.

The specific audit objectives were:

1. to determine if the internal control structure surrounding the accounts payable process is adequate and operational.
2. to determine the extent to which the accounts payable process complied with applicable laws, policies and procedures.
3. to determine efficiency and effectiveness of the accounts payable process.

### Scope of the Audit

The audit involved gaining an understanding of the daily and month-end accounts payable process through interviews and inquiries of personnel at the Transit Department. The audit also included a review of various operating and financial documents and data for fiscal years 2009-2010, and City and State Codes.

The audit involved selecting samples of accounts payable transactions by random sample and auditor judgment for fiscal years 2009-2010 as shown below.

Accounts Payable	Fiscal Year 2009		Fiscal Year 2010	
	Quantity	Amount (rounded)	Quantity	Amount (rounded)
Total Checks	886	\$4,365,937	866	\$3,039,293
Check Samples	50	\$ 209,283	50	\$ 362,343

## Results of the Audit

### Background

The Transit Department operates as an enterprise fund and receives operating funds from various Federal and State grants, City of Clarksville budget allocation and ridership receipts. Department objectives are to provide bus and demand transportation for the City. Operating expenditures are paid by check (if costing \$1,000 or more), by purchasing credit card (if costing less than \$1,000) and by inter-fund transfers with other City departments.

<i>Financial Information</i>	<i>FY 2009</i>	<i>FY2010</i>
<i>Accounts Payable Information (rounded)</i>		
<i>No. of checks written</i>	886	866
<i>No. of vendors</i>	163	180
<i>Total dollar of all checks</i>	\$4,365,937	\$3,039,293
<i>No. of invoices processed</i>	1,253	1,371
<i>P Card Statistical Information (rounded)</i>		
<i>No. of transactions</i>	524	549
<i>Total expenditures</i>	\$30,999	\$35,659
<i>No. of cardholders</i>	14	14

### The Good News

The auditor believes that overall the accounts payable process works well for the Transit Department. However, there are some areas that need improvement as noted below.

### Findings and Recommendations

The following is a summary of the findings resulting from tests, analyses, and conversations with various Transit Department personnel, and knowledge gathered from various applicable laws and regulations:

#### 1. Weakness in Unused Checks Process

**Criteria:** Good business practices include having a policy and procedures for handling stack fed sequentially numbered checks and addresses defacing any unused checks.

**Condition:** Unused pre-numbered checks from previous check runs have been allowed to accumulate.

**Cause:** Accounts payable may have been unaware of the control procedure of defacing the unused checks.

**Effect:** Unused checks out of number sequence and unaccounted for can lead to opportunities for misuse.

**Recommendation:**

The auditor recommends accounting management establish a policy and procedures for handling unused pre-numbered checks.

**Management's Comments:**

Agree  Disagree

**Corrective Action Plan: Issue Accounting Directive - Unused Check Process**

**Completion Date: March 1, 2011** \_\_\_\_\_

**Responsible Manager: Jimmy Smith** \_\_\_\_\_

2. **Weakness in Payment of Sales Taxes On Credit Card Purchases**

**Criteria:** Municipals are exempt from paying sales taxes on goods and services.

**Condition:** In fiscal year 2010 seven of fourteen cardholders paid occasional sales tax.

**Cause:** Employees may have forgotten to provide evidence of being tax exempt when making purchases.

**Effect:** The department is paying more for goods and services than is necessary.

**Recommendation:**

The auditor recommends reminding department employees to have exemption evidence available when making all credit card purchases.

**Management's Comments:**

Agree  Disagree

**Corrective Action Plan: Issue reminder to P-Card holders about sales tax**

Completion Date: March 1, 2011 \_\_\_\_\_  
Responsible Manager: Jimmy Smith

3. Weakness in Vendor File Maintenance

Criteria: Good vendor file maintenance practices include the following:

- Establish written procedures to cover every aspect of master vendor file maintenance
- Restrict access to process owners
- Establish separation of duties for file maintenance
- Establish responsibility for changing vendors
- Establish and enforce a policy for data entry formats
- Eliminate all duplicate vendors
- Purge all terminated employees
- Purge vendors that have had no activity for an established time period
- Audit changes to master vendor file

Condition: Data entry formats lack uniformity and terminated employees and inactive vendor records are in the file.

Cause: The department has no written vendor file maintenance policy or procedures.

Effect: If vendor file maintenance is not performed it is possible to make duplicate payments and misuse vendor files.

Recommendation:

The auditor recommends establishing and maintaining policies and procedures for vendor file maintenance to address each issue identified in the Criteria above.

Management's Comments:

Agree   X   Disagree \_\_\_\_\_

Corrective Action Plan:

Completion Date: April 1, 2011  
Responsible Manager: Jimmy Smith

**Other Opportunities for Improvement:**

**The following recommendations are not findings but are suggestions for improving City business.**

**As the department migrates to the Munis finance system consideration should be given towards improving data retrieval efficiency by scanning accounts payable support documents and attaching them to invoices.**

**Equipment and procedure information may be obtained from the City General Finance and Revenue Department.**

**If you have any questions regarding the information in this audit please contact the department at 931-648-6151.**

**Respectfully submitted,**

**Robin Manley  
Internal Auditor**