



# **CITY OF CLARKSVILLE INTERNAL AUDITOR'S REPORT**

Clarksville-Montgomery County Regional Airport  
Authority

Review of Expenses and Internal Controls

July 1, 2009 – June 2, 2010

**CITY OF CLARKSVILLE  
INTERNAL AUDITOR’S REPORT**

**Review of  
Clarksville-Montgomery County Regional Airport Authority  
Expenses and Internal Controls  
July 1, 2009 – June 2, 2010**

---

**Table of Contents**

---

<b>Table of Contents.....</b>	<b>1</b>
<b>Internal Auditor’s Report.....</b>	<b>2</b>
<b>Origin of Review.....</b>	<b>3</b>
<b>Review Objectives.....</b>	<b>3</b>
<b>Scope of Review.....</b>	<b>3</b>
<b>Results of the Review</b>	
<b>Background.....</b>	<b>3-6</b>
<b>Findings and Recommendations.....</b>	<b>6-11</b>

**July 15, 2010**

**The Honorable Mayor John E. Piper  
Audit Committee Members  
Clarksville-Montgomery County Regional Airport Authority Board  
Ben Griffin, Commissioner of Finance and Revenue  
Clarksville, Tennessee 37040**

**Internal Auditor's Report**

**I have reviewed the Clarksville-Montgomery County Regional Airport Authority's (the Authority's) expenses and related internal controls for the period July 1, 2009 through June 2, 2010. The review was conducted as a part of the Internal Audit department's responsibility to review City expenditures. The review focused on the Authority's disbursement of City funds and the internal controls surrounding the disbursements.**

**The review revealed weaknesses in the internal control systems surrounding the Authority's disbursement of City funds. These are outlined in the section of the report entitled Findings and Recommendations.**

**In accordance with City Code Section 6-609 this report has been issued without management comments since management's written responses were not received in a timely manner as defined by that Code section. As set forth, the Authority has been requested to provide their responses to the findings in a separate report within 30 days of the date of publication of this report.**

**Lynn Stokes  
Internal Auditor**

---

## **Internal Auditor's Report**

---

### **Origin of the Review**

This review was conducted as a part of the Internal Audit department's responsibility to review City expenditures. The review was approved by the Audit Committee on May 26, 2010.

### **Review Objectives**

The review focused on the Authority's use of City funds. The specific review objectives were:

1. to determine the extent to which the Authority used City funds according to the approved budget; and
2. to determine if the internal control structure surrounding the disbursement of City funds is adequate.

### **Scope of the Review**

The review involved interviewing Authority staff, analyzing Authority financial information and examining supporting documentation for certain auditor chosen disbursements for the period July 1, 2009 through June 2, 2010. The auditor attempted to recreate the comparison of the budget to actual figures prepared by the Authority staff on the June 3, 2010 Budget Report.

### **Results of the Review**

#### **Background**

The Clarksville-Montgomery County Regional Airport Authority was created in 1997 by resolutions passed by the Clarksville City Council and the Montgomery County Commissioners in accordance with TCA 42-3-101, et seq. The management

of the Authority is vested in a five member Board of Commissioners which are appointed as follows: two by the City Mayor, two by the County Mayor and one by the four appointed Authority members. For the period under review, the operating budget was funded 50% by the City and 50% by the County. In addition, the City and the County provided the matching portion required for certain State/Federally funded projects. During the period under review, the City of Clarksville made the following payments to the Authority:

<u>Operating Expenses</u>	<u>Local Match for Projects</u>	<u>Total</u>
\$158,429.33	\$203,725	\$362,154.33

The following is a comparison of the original budget and the actual expenses for July 1, 2009 – June 2, 2010. The actual figures are figures that could be verified by the auditor according to Authority financial records and differ slightly from those published by the Authority.

**CLARKSVILLE-MONTGOMERY COUNTY REGIONAL AIRPORT AUTHORITY  
APPROVED BUDGET FISCAL YEAR 2010**

INCOME	Original Budget	Actual Income As of 06/03/2010
Income from Operations:		
Rental Income:		
Farm Rent - Gilliam Contract	\$5,200.00	\$6,250.00
Bi-County Land Fill	\$2,400.00	\$2,200.00
Terminal Office – Skydive	\$1,440.00	\$0.00
Terminal diner	\$3,000.00	\$500.00
Building 3 - Small T-Hangers	\$4,500.00	\$6,302.00
Building 4 - FBO Hanger	\$16,404.00	\$18,097.79
Hangar 6 – MCA	\$6,075.00	\$6,970.50
Building 8 - SJ Corp. Hanger	\$1,000.00	\$0.00
Sign Rent	\$2,500.00	\$0.00
Whitford hangar	\$1,050.00	\$0.00
Flight School Office	\$876.00	\$0.00
Terminal FBO Office	\$657.00	\$73.00
New 10 Unit T-Hangar (100% occupied)	\$27,000.00	\$18,225.00
Misc Income	\$0.00	\$1,535.00
Other Income:		
Fuel Flowage Fees	\$3,600.00	\$4,631.26
Grants & Appropriations:		
TDOT Maint. Fund	\$10,000.00	\$0.00
<b>Operating Income Before Subsidy</b>	<b>\$85,702.00</b>	<b>\$64,784.55</b>
<b>City/County Operating Subsidies</b>	<b>\$393,664.00</b>	<b>\$325,317.33</b>
<b>Operating Income After Subsidies</b>	<b>\$479,366.00</b>	<b>\$390,101.88</b>

EXPENSES	Original Budget	Actual Expenses As of 06/03/2010
<b>Expenses from Operations:</b>		
Mileage	\$4,200.00	\$3,576.34
<b>Personnel Payroll:</b>		
Airport Manager	\$60,000.00 *	\$0.00
Intern Airport Manager	\$0.00	\$1,500.00
Hourly Office Admin.	\$35,000.00	\$32,242.31
Hourly Maint. Man (2 @ 35,000.00)	\$70,000.00	\$30,280.20
Payroll Taxes	\$15,000.00	\$6,561.81
<b>Professional Fees:</b>		
Legal	\$60,000.00	\$38,606.19
Accounting/Audit	\$22,500.00	\$13,500.00
Contracted Services	\$0.00 *	\$68,756.84
Membership/Dues	\$1,000.00	\$970.61
Postage & Shipping	\$1,500.00	\$245.34
<b>Insurance:</b>		
Workers Comp	\$3,000.00	\$1,533.00
Property/Other	\$8,500.00	\$10,833.25
Car Insurance (Crew Car)	\$1,000.00	\$991.00
Office Supplies	\$6,350.00	\$4,732.08
Seminars/Training	\$1,500.00	\$50.00
Debt Service - Legends Bank	\$21,168.00	\$18,099.18
Weather Service	\$2,000.00	\$0.00
Phone Service	\$4,500.00	\$2,177.78
Internet	\$1,500.00	\$1,188.31
Cellular	\$1,300.00	\$1,136.10
Walkie Talkies	\$1,500.00	\$0.00
<b>Utilities:</b>		
Gas & Water	\$7,000.00	\$8,095.34
Cable	\$950.00	\$1,038.31
Electricity	\$23,748.00	\$18,464.91
<b>Maintenance:</b>		
Buildings	\$23,650.00	\$8,308.54
Grounds	\$18,500.00	\$23,642.59
Mobile Home Close Out	\$36,000.00	\$13,309.30
Mobile Home Park Lost Income	\$24,000.00	\$0.00
Mobile Home Park – City Loan	\$24,000.00	\$0.00
<b>Total Operating Expenses:</b>	<b>\$479,366.00</b>	<b>\$309,839.33</b>

\* Original budget was amended to move \$36,346.84 from airport manager's salary to contracted services. An additional \$23,625.40 that was transferred from the close-out of the mobile home park was combined with the first amount to bring the amended budget figure for contracted services to \$59,972.24.

CAPITAL PROJECTS	Original Budget	Actual As of 06/03/2010
<b>Receipts:</b>		
Capital Projects State Funding	\$610,000.00	\$259,056.11
Capital Projects - City/County Funding	\$1,275,160.00	\$459,650.00
<b>Total Capital Projects Receipts</b>	<b>\$1,885,160.00</b>	<b>\$759,038.11</b>
<b>Expenses:</b>		
Capital Projects State Funding	\$610,000.00	\$412,376.06
Capital Projects - City/County Funding	\$1,275,160.00	\$52,450.00
<b>Total Capital Project Expenses</b>	<b>\$1,885,160.00</b>	<b>\$464,826.06</b>

### Findings and Recommendations

The following is a summary of the findings resulting from discussions with Authority staff, analysis of financial information and review of certain supporting documentation:

#### 1. Recurring Findings in the External Audit Report

**Criteria:** Internal control findings cited by the independent auditor should be addressed within a reasonable period of time. Weak controls that are a result of the small staff size should be mitigated with various review and approval activities that include Board members.

**Conditions:** The external audit report dated June 30, 2009 cited four internal control weaknesses that have been reported in previous years by the external auditor. Only one of these four findings has a legitimate reason for continuing to appear in the audit report.

**Cause:** Management offered staff size and cost-benefit analysis as reasons that two of the findings are ongoing. Another finding involved a misunderstanding about allowable pass-through purchases of an entity operating on site.

**Effect:** Recurring findings can indicate a lack of involvement or understanding on the part of management in the control process.

**Recommendation:** Each year's audit findings should be resolved before the end of the following reporting period.

The "Lack of Oversight Over Financial Reporting" finding should be given consideration beyond a cursory agreement with Comptroller's letter to governmental agencies stating that this finding is allowable when a cost-benefit

analysis indicates it would be too costly for a government to hire someone with the expertise needed to produce financial statements in conformity with GAAP. The number of adjustments and the types of adjustments that are required by the auditor to bring the financial statements in conformity to GAAP should be evaluated to determine if there is a weakness in skill sets beyond financial statement preparation.

## 2. Weaknesses Surrounding Personnel Policies

**Criteria:** The Authority should have written personnel policies that address the following:

- Requirements regarding the public advertisement of all job openings
- Requirements for creating new positions
- Written job descriptions for all employees
- Written nepotism policy
- Written overtime policy that requires overtime hours worked to be documented and paid at the end of the applicable pay period
- Written policy that staff will be reimbursed mileage at the federal rate
- Written bonus policy
- Written policy regarding an employee filling a vacant position in an interim status

**Condition:** Although the Authority has written personnel policies, the items listed above are either not a part of the policies or were not followed during the period reviewed.

The Authority created a new job position (Intern Airport Manager) and hired an individual into that position without budgeting the position, without advertising the position and without creating a job description for that position. The individual is a relative of a Board member.

Two staff members were awarded a lump sum payment in May of \$2,500 as payment for overtime worked during the year. One individual has documented overtime that shows that the employee should be paid more than \$2,500. The other individual's overtime does not support the \$2,500, although the employee states that the overtime hours were worked.

The administrative assistant's pay was increased by more than 3% (the approved annual increase) in the prior year with the understanding that she would fulfill some of the airport manager's responsibilities since that position was vacant. There was no written job description or written understanding of the responsibilities and expectations for the combined administrative assistant/airport manager job. The lack of clearly defined responsibilities has caused confusion.

**Cause:** Personnel policies either weren't followed or do not address the above issues.

**Effect:** The overall effect is that there is weak control surrounding employee practices.

**Recommendation:** Develop and follow personnel policies that address the above issues.

3. **Purchasing Policies Not Followed**

**Criteria:** Article X of the By-laws of the Authority requires compliance with the City of Clarksville Purchasing Policies as codified in section 6-102 of the City Code.

**Condition:** The Authority did not follow the required competitive bidding process in hiring a contractor to perform over \$64,000 in earthmoving/land clearing services.

The Authority did not follow the competitive bidding process in purchasing a \$11,800 mower.

**Cause:** Unknown.

**Effect:** The effect is that City taxpayer money is expended outside the required bidding process and there is no documented assurance that the lowest and best price was paid.

**Recommendation:** Give all staff and Board members a copy of the City Purchasing Policy. Educate staff and Board members about the policy. Enforce the use of the policy.

4. **Lack of Oversight Over the Use of Debit Cards**

**Criteria:** All Authority purchases should be reviewed and approved by a second individual.

**Condition:** The Authority staff use debit cards to make purchases. The debit card transactions show up on the bank statements. No one is currently reviewing the debit card transactions on the bank statements.

The auditor requested supporting receipts for all debit card transactions for the months of December, February and April. For December seven out of 30 receipts were missing, for February five out of 40 receipts were missing, and for

April twelve out of 47 receipts were missing. The missing receipts totaled \$2,591.59 and by vendor were as follows: Wal-Mart – \$811.83, Target – \$691.41, Capital One - \$532.79, Kroger – \$197.78, Home Depot – \$193.20, other – \$164.58. The auditor was not able to trace any of the related transactions to the Authority’s general ledger.

Five supporting documents examined were for invoices to an Illinois company which the auditor could find no evidence exists. A Google search and search of the Illinois Secretary of State website revealed no listing of the company. The phone number listed on the invoice is not a working number. For the three months reviewed there were five debit card transactions for which the support showed charges totaling \$1,316.28 to this company. The most recent was dated April 9, 2010. When the Authority employees were questioned they could offer no information about the company or how the charges were made.

Two receipts examined during the three months reviewed revealed personal items purchased with the debit card. The employee said that the Authority was reimbursed for the items. The total of both receipts was approximately \$45.

One examined receipt was for the purchase of furniture items. When questioned about the location of these items, the employee said that the items had been returned to the vendor. The auditor was unable to verify the return on subsequent bank statements.

**Cause:** The small staff size makes independent review difficult.

**Effect:** Without a second set of eyes reviewing and approving purchases there is opportunity for fraud.

**Recommendation:** The Authority should make a complete review of all debit card transactions over the past year and determine that all charges were for a business purpose.

In the future there should be a documented review of all debit card transactions by a Board member. Bank statements should have the supporting receipts attached. Because debit cards can easily be used to withdraw cash and because debit card transactions are difficult to review on bank statements the auditor recommends that the Authority discontinue the use of debits cards and use credit cards instead. No personal purchases should be made with the business card.

## 5. **Weaknesses in Professional Services Documentation**

**Criteria:** Professional service invoices should specify what services were performed showing the hourly rate and the applicable amount of time used for each service.

**Condition:** Five legal invoices amounting to \$34,000 gave no detail on the invoice other than “For services rendered”. Four of the invoices were for \$6,000 and one was for \$10,000. There was no contract on file at the Authority office for the legal services.

**Cause:** The invoices were for legal litigation services.

**Effect:** There is no detailed support on file for the charges.

**Recommendation:** Request itemized invoices from professional service providers. Legal invoices related to litigation should list the type of service provided and the amount of time charged for each service if more specific identification is not prudent for legal reasons.

#### 6. **Mileage Reimbursement Rate Above Federal Rate**

**Criteria:** Federal mileage reimbursement rate is .50 per mile. Any reimbursement rate above that requires that the additional amount be added to the employee’s taxable income.

**Condition:** Authority employees are reimbursed mileage at .58 per mile. They were reimbursed a total of \$3,576 during the period which is approximately 6,100 miles.

**Cause:** The responsible employee thought she was using the federal rate.

**Effect:** The Authority is reimbursing employees at a rate above the Federal rate.

**Recommendation:** Periodically check the GSA website for updated reimbursement rates. Add the additional .08 per mile to the employee’s taxable income at the end of the year.

#### **Other Recommendations:**

The following are situations that came to the auditor’s attention during the review that are outside the scope of the review but merit consideration by the Authority Board.

- **Currently four Board members' terms expire at the same time. This significant turn over in leadership every five years creates an exodus of experience and knowledge that could be alleviated by staggering the terms of Board members.**
- **A realistic comprehensive business plan with a related strategic plan to implement it should be developed with a professional planner in order to measure and evaluate the Authority's progress toward desired outcomes. The Authority's progress should be reported upon quarterly or semiannually to the City Council and the County Commissioners.**
- **Written internal control policies and procedures for cash receipts, cash disbursements, bank reconciliations and credit usage should be developed and followed.**
- **A handbook for Board members should be developed that contains basic information about the management of the Authority such as TCA Section 42-3-101 et seq, the Authority By-Laws, the requirements regarding the prohibition to discuss Authority business outside of publicly announced meetings, important contact information including City and County officials and TDOT officials, and any other information that enables Board members carry out their responsibilities in an informed manner.**
- **An experienced airport manager should be hired as quickly as possible to provide consistent onsite oversight of airport operations.**

**The auditor appreciates the assistance of the Authority staff during the conduct of this review.**

**If you have any questions regarding the information in this review please contact me.**

**Respectfully submitted,**

**Lynn Stokes  
Director of Internal Audit**