



CITY OF CLARKSVILLE INTERNAL AUDIT REPORT

CDE Lightband

Accounts Payable Audit

July 1, 2008 – March 11, 2011

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July 5, 2011

**The Honorable Mayor Kim McMillan
Audit Committee Members
Brian Taylor, Interim Superintendent, CDE Lightband
David Johns, Chief Financial Officer, CDE Lightband
Ben Griffin, Commissioner, Finance and Revenue
One Public Square
Clarksville, Tennessee 37040**

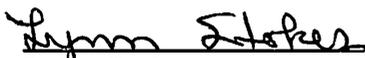
Internal Auditor's Report

The City of Clarksville Internal Audit Department has audited the CDE Lightband's accounts payable process for the period July 1, 2008 to March 11, 2011. 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.

We 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 we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. We believe that our audit provides a reasonable basis for our conclusions.

In our 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.

We 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.


**Lynn Stokes
Director of Internal Audit**


**Robin Manley
Internal Auditor**

Internal Auditor's Report

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 CDE Lightband.

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 responsible personnel at the department. The audit also included a review of various operating and financial documents and data for fiscal years 2009-2011, City Code and State Laws and Regulations. Fiscal year 2011 is only a partial year (July 7, 2010 to March 11, 2011). The audit involved selecting samples of accounts payable transactions by auditor judgment for fiscal years 2009-2011 as shown below.

Accounts Payable Check Data				
Fiscal Year	Total Checks	Check Value	Checks Samples	Sample Value
2009	14,030	\$42,198,292	39	\$ 556,895
2010	10,182	\$56,419,241	45	\$6,463,838
2011	6,342	\$55,622,622	25	\$3,285,787

Results of the Audit

Background

CDE Lightband is operated as an enterprise fund of the City and has management oversight by a Power Board. It is comprised of two divisions: Electric and Broadband. Each division's objective is to provide reliable and quality service to its customers.

Revenue for the Electric Division is primarily from retail electricity sales and from commissions for managing collections of Bi-County Solid Waste payments through monthly customer bills.

Revenue for the Broadband Division is primarily from sales of cable, internet and telephone services.

The Electric Division's operating expenditures are for TVA wholesale power purchases and for maintenance of the electrical transmission and distribution network.

The Broadband Division's operating expenditures are for cable program payments, new customer marketing and for customer service. Non-operating expenditures include interest expense on debt.

The Electric Division provides accounts payable service for both divisions.

Payments are made primarily by inter-fund transfer, electronic fund transfer and pre-numbered checks. Interdivisional services provided by the Electric Division are allocated to the Broadband Division based upon a method approved by the TVA.

Payment support documentation includes purchase orders which are primarily used for material acquisitions and authorizations to purchase which are primarily used for all other purchases. Both purchasing forms are pre-numbered and are signed by appropriate authority in accordance with the department's purchasing policy.

Accounts payable personnel process payments weekly to ensure vendors are promptly paid for their goods and services.

The Good News

The auditor believes that overall the accounts payable process is properly controlled and is in compliance with City Code and State laws and regulations. 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 CDE Lightband personnel, and knowledge gathered from various applicable laws and regulations:

1. Weaknesses Regarding Account Payable Written Policies and Procedures

Criteria: The ICCMTM (Internal Control and Compliance Manual for Tennessee Municipalities) states that for a good internal control environment a Municipality should develop and maintain current written operating policies and procedures.

Condition: No comprehensive set of policies and procedures for accounts payable exists.

Cause: Some of the employees have been performing work in this area for a number of years and have used only informal notes. As a result they may not have considered the need for formal written documentation.

Effect: Lack of written policies and procedures can cause confusion and inconsistencies especially with new or assisting employees.

Recommendation: The auditor recommends establishing written policies and procedures for the accounts payable process and periodically updating them.

Management's Comments:

Agree X Disagree

Corrective Action Plan: Management agrees with this finding, and intends to gather and document all AP procedures in conjunction with the accounting upgrade this Fall.

Completion Date: 12/31/11

Responsible Manager: David Johns

2. Occasional Sales Tax Paid On Invoices

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

Condition: A review of payment samples showed one instance where \$35.85 sales tax was paid on a purchase of \$377.40.

Cause: Employees may have been unable to provide a tax exempt certificate when making the purchase or the tax was overlooked during the payment process.

Effect: The effect is that the department ends up paying more for goods and services than is necessary.

Recommendation: The auditor recommends periodically reminding department employees that purchases should be tax exempt. Additionally, the auditor recommends requiring written justification on the invoice before payment is made for any purchase that is not tax exempt.

Management's Comments:

Agree X Disagree _____

Corrective Action Plan: Management intends to remind department heads that sales tax is not to be paid on any purchase. Additionally, management is requesting that the vendor refund the sales tax for the item discovered by the internal auditor.

Completion Date: 7/15/11
Responsible Manager: David Johns

3. Weakness in Vendor File Maintenance

Criteria: Good vendor file maintenance practices include the following:

- Establish a written procedure manual to cover every aspect of master vendor file maintenance.
- Restrict access to process owners.
- Establish and enforce a policy for data entry formats
- Eliminate duplicate vendors
- Purge terminated employees
- Purge vendors that have had no activity for an established time period.

Condition: Data entry formats lack uniformity and some 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 of the vendor file can occur.

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: Management intends to document and codify all of the above suggestions in conjunction with the CAP for finding number 1 above.

Completion Date: 12/31/11

Responsible Manager: David Johns

4. Weakness in Checks Having Only One Signature

Criteria: ICCMTM (Internal Control and Compliance Manual for Tennessee Municipalities) requires using two signatures on checks to mitigate the risk of fraudulent payments.

Condition: On one occasion a construction check was issued to a vendor in the amount of \$25,028.90 that only had one signature on it and it was processed by the bank.

Cause: Management inadvertently issued the check without having two signatures.

Effect: The effect is that internal control is reduced which increases the risk of processing fraudulent checks.

Recommendation: The auditor recommends monitoring more closely for possible exceptions to policy.

Management's Comments:

Agree Disagree

Corrective Action Plan: Management intends to monitor these checks more closely for exceptions. Management has already reduced the number of persons authorized to sign these checks to only 3 division managers, all of whom are fully aware of the 2 signature requirement.

Completion Date: 7/15/11

Responsible Manager: David Johns

Other Opportunities for Improvement:

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

- **Begin using purchasing cards and discontinue using the Authorizations to Purchase. The easiest way for CDE Lightband to enter the purchase card program and obtain cards is to contact the City Purchasing Agent and request service.**
- **Vendor payment documentation retrieval in the RVI imaging system may be improved if all invoices and support documents are put into only one image folder.**
- **Positive pay is an industry recommended method of reducing check fraud. Upon completion of a check run accounts payable submits a list of checks and their respective amounts to the department's bank. In the event that a check amount has been changed it would be caught before it is cashed. The bank may charge a small monthly fee for the service or it may be included at no charge in a service bundle.**
- **Conduct periodic internal control self-review assessments to identify potential risks and methods to mitigate them.**
- **Currently, department decision makers must go to the CFO for financial information. To fulfill requests the CFO must run reports in the daffron system and then export the output data into MS Excel to create reports with a more user friendly format. To improve efficiency the auditor recommends developing a report library of standard reports with a user friendly format so that users can run their own reports.**

If you have any questions regarding the information in this audit please contact the Internal Audit Department at 931-648-6151.

Respectfully submitted,

**Robin Manley
Internal Auditor**