



CITY OF CLARKSVILLE INTERNAL AUDIT REPORT

City Finance and Revenue Department

Accounts Payable Audit

July 1, 2008 – June 30, 2010

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Attachments:

A. Recommendations for vendor file management.

**B. City of Clarksville Finance and Revenue Standard Operations
 Manual excerpt III Accounting Division – Accounts Payable.**

September 22, 2010

**The Honorable Mayor John E. Piper
Audit Committee Members
City Department Directors
Ben Griffin, Commissioner of Finance and Revenue
Vivian Leavell, Accounts Payable Supervisor
1 Public Square
Clarksville, Tennessee 37040**

Internal Auditor's Report

I have audited the City Finance and Revenue 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 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**

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 2011.

Audit Objectives

The audit focused on a review and analysis of the accounts payable process used by the City of Clarksville's Finance and Revenue 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 processes through interviews and inquiries of personnel at City Finance and Revenue, Purchasing and Information Technology. The audit also included a review of various operating and financial documents and data for FY's 2009 through 2010, and City and State Codes.

The audit involved selecting samples of accounts payable transactions by auditor judgment for FY's 2009 and 2010 as shown below.

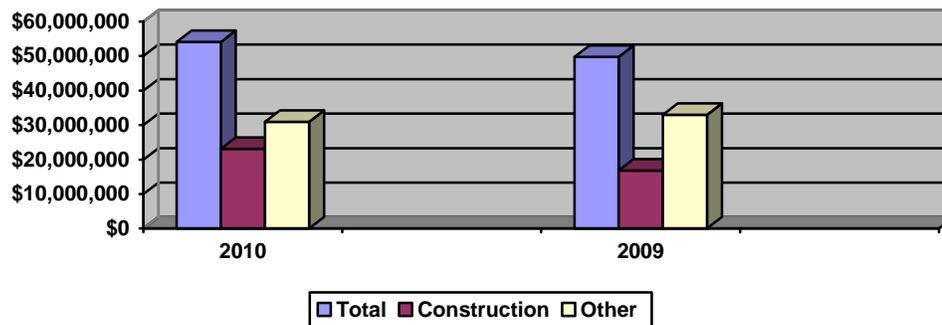
	FY2009	FY2010
Total transactions (approximate)	16,000	16,000
Sample transactions tested	482	235
Asset transactions tested	10 (of the 482)	11 (of the 235)
Project transactions tested	46 (of the 482)	20 (of the 235)
Grant transactions tested	14 (of the 482)	11 (of the 235)

Results of the Audit

Background

Annually, City Finance and Revenue processes accounts payable payments for many different City departments (Mayor, Legal, Communications, Legislative, Fire, Police, Parks, Street, Human Resources, Garage, Purchasing, Finance, Information Technology, Internal Audit, Buildings and Codes, Golf Course, Building Maintenance and Community Development.

Vendor Statistics:



Vendor Statistics	2010		2009	
Total vendor expenditures	\$54,022,276	100%	\$49,757,536	100%
Construction vendors	\$23,066,128	42%	\$16,805,554	34%
Other vendors	\$30,956,148	58%	\$32,951,982	66%
Total vendor name count	1,949		1,988	
Total checks written to vendors	7,527		8,334	

Note: The construction vendor valuation is an estimate based on audit samples.

The highest paid vendors were for construction.

The lowest paid vendors were for reimbursements.

The Good News

The auditor believes that overall the accounts payable process works well for City Finance and Revenue and supported departments. 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 City department personnel, and knowledge gathered from various applicable laws and regulations:

1. Out Of Date Written Accounts Payable Policies and Procedures

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

Condition: City Finance and Revenue does have formal written policies and procedures but, they have not been updated since approximately 2001.

Cause: The Finance policy and procedures document is fairly extensive but, appears to have been overlooked as changes over time occurred.

Effect: Outdated written policies and procedures can cause confusion and inconsistencies especially with new employees.

Recommendation:

The auditor recommends updating the existing set of finance policies and procedures for the accounts payable process. See attachment B.

Management's Comments:

Agree _____ Disagree _____

Corrective Action Plan: revise the policy

Completion Date: 12-31-10

Responsible Manager: Ben Griffin

2. Vendor File Maintenance and Sensitive Data Visibility

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 (see attachment A)
- Eliminate all duplicate vendors
- Purge all terminated employees
- Purge vendors that have had no activity for 15 months.
- Audit changes to master vendor file
- Check vendors against Federal Bureau of Industry and Security's list of excluded persons and companies.

Condition: Access is not restricted to process owners, data entry formats lack uniformity, terminated employees and inactive vendors records are in the file, and no periodic file change audits have been performed.

Cause: 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 vendor file could occur.

Recommendation:

The auditor recommends Finance and Revenue establish a policy and procedures for vendor file maintenance to address each issue identified in the Criteria above.

Management's Comments:

Agree X Disagree

Corrective Action Plan: Add as part of the revised AP policy.

Completion Date: 12-31-10

Responsible Manager: Ben Griffin

3. **Invoice Processing Weakness by Supported Department Employees**

Criteria: Good business practices include reviewing invoices for errors, and forwarding quickly to Finance and Revenue to take advantage of discounts.

Condition: Samples reviewed revealed one instance of erroneous charges being included in a multi-line billing statement and one instance of a lost discount.

Cause: Occasionally statements are not carefully reviewed and invoices are not submitted to City Finance and Revenue in a timely manner.

Effect: Duplicate line items within statements and invoices may be erroneously paid and discounts may be lost.

Recommendation:

The auditor recommends reminding department employees to carefully review all line items on bills. Submit bills as soon as possible as Finance and Revenue requires several days to process payments.

Management's Comments:

Agree _X _____ Disagree _____

Corrective Action Plan: Send periodic reminders about due dates to all departments.

Completion Date: 12-31-10

Responsible Manager: Ben Griffin

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