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Missouri State Auditor

City of Clarksville



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Missouri State Auditor

YELLOW SHEET

Findings in the audit of the City of Clarksville

Financial Condition

The financial condition of the General Fund has declined significantly during the last 3 years. The city cannot continue to spend more than it receives. Additionally, the Board is not receiving adequate financial information. The financial reports presented to the Board need greater detail for the Board to properly monitor the financial condition of the city's various funds. Although the Mayor indicated the city is aware of the deteriorating condition of the General Fund, the city has not developed a formal plan to address the city's financial condition or specific plans to reduce expenditures and/or increase revenues.

City Collector

Significant weaknesses were identified in the controls, records, and procedures over the property tax system. As a result, there is less assurance that all property tax monies have been handled and accounted for properly. The duties performed by the City Collector are not adequately segregated, and there is no independent review of the City Collector's controls, records, and procedures. The City Clerk does not perform an independent review of the tax book information or totals to ensure they are correct, or charge the City Collector with the amount to be collected. The City Collector does not maintain an account book, reconcile the total assessed valuations recorded in the city's tax books to the assessment list prepared by the Pike County Assessor, or recalculate tax statements on a test basis to ensure the tax was accurately extended. The tax statements are not adequate. The City Collector posts additions and abatements to the tax books without Board review and approval, and does not prepare appropriate reports for the Board as required by state law. A detailed annual report is not prepared, an annual list of delinquent taxes is not always prepared, and the monthly report to the Board does not include a list of delinquent tax collections by year. Additionally, the city does not adequately pursue collection of delinquent taxes, and the City Collector does not maintain a list documenting the residents who purchased automobile stickers, the relevant sticker number issued, and delinquent residents.

Utility Policies, Procedures, and Records Utility Policies, Procedures, and Records

There are significant weaknesses in operations related to water, sewer, and trash services. As a result, there is less assurance utility monies are handled and accounted for properly. Reports reconciling total gallons of water billed to gallons of water pumped were either not prepared or not retained for several months in 2009. Delinquent accounts are not handled in accordance with city policy and ordinances. Some customers are allowed to make partial payments without Board approval. Although some adjustments may be necessary to correct inaccurate billings, the utility clerk has the ability and authority to record credit adjustments to the computer system without documenting each adjustment or obtaining approval. The city did not retain adequate documentation to support estimated readings and manual bills prepared when the utility system crashed in November 2008. In addition, the accounts were not reconciled with subsequent actual readings. The trash rate



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charged to customers is not set by ordinance, and does not cover the cost of the service.

Expenditures

Although the city has a purchasing policy for the purchase of goods and services, the policy does not state when Board approval is required for items bid or the type of documentation to be obtained or retained. Bids and/or proposals were either not solicited or bid documentation was not retained for several purchases during the year ended June 30, 2009. Purchase orders are not always obtained, two signatures on checks are not always used, and Board approval of expenditures is not always retained.

Controls over Revenues

As a result of not issuing receipt slips for all monies received and not consistently recording the method of payment, the composition of receipts cannot be reconciled to the composition of deposits. In addition, monies are not deposited on a timely basis, and checks and money orders are restrictively endorsed when a deposit is prepared rather than immediately upon receipt. Additionally, the city does not examine or inspect the books and records of hotels/motels to ensure all tourism taxes due are collected, and some entities may not be submitting quarterly tax reports to the city as required. As a result, there is no assurance the city is maximizing revenues generated from the tourism tax.

Tax Increment Financing

There are significant weaknesses regarding the city's management and oversight of its Tax Increment Financing (TIF) district. The city did not ensure there was an active TIF Commission to control and finish the TIF project on a timely basis. According to city officials, the TIF Commission has not been active for many years. Also, city officials state that the 2008 flooding of the downtown area disrupted efforts by the city to work on the project. As a result, the TIF project has not been completed and funds have not been received or expended as originally intended.

FEMA Grant

A flood in June 2008 caused extensive damage in the city. As a result, the city qualified for federal disaster relief funds from the Federal Emergency Management Agency (FEMA); however, the FEMA monies were not accounted for properly. These monies were not maintained in a separate fund and as a result, the city has not adequately accounted for FEMA monies received but not used and may have used water and sewer funds for general city operations. The city has not contacted the State Emergency Management Agency to request approval for an extension of time to complete some projects.

Other Findings

Other findings in the audit report relate to budgeting, financial reporting, meetings and minutes, and capital assets.

All reports are available on our Web site: auditor.mo.gov

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SUSAN MONTEE, JD, CPA
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
Clarksville, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Clarksville. The city engaged Charles E. Montgomery, Certified Public Accountant (CPA), to audit the city's financial statements for the year ended June 30, 2009. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit included, but was not necessarily limited to, the year ended June 30, 2009. The objectives of our audit were to:

1. Obtain an understanding of the petitioners' concerns and perform various procedures to determine their validity and significance.
2. Evaluate the city's internal controls over significant management and financial functions.
3. Evaluate the city's compliance with certain legal provisions.

Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions.

We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. However, providing an opinion on the effectiveness of internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

We obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. Abuse, which refers to behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary given the facts and circumstances, does not necessarily involve noncompliance with legal provisions. Because the determination of abuse is subjective, our audit is not required to provide reasonable assurance of detecting abuse.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in our audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Clarksville.



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State Auditor

The following auditors participated in the preparation of this report:

Director of Audits:	Alice M. Fast, CPA, CGFM, CIA
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In-Charge Auditor:	Steven J. Re', CPA
Audit Staff:	Monique M. Williams

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Management Advisory Report

State Auditor's Findings

1. Financial Condition

The financial condition of the General Fund has declined significantly during the last 3 years. The city cannot continue to spend more than it receives. The following table presents General Fund activity and balances for the years ended June 30, 2009, 2008, and 2007.

General Fund	2009	2008	2007
Fund balance, July 1	\$ (1,779)	82,830	147,840
Revenues	425,591	203,313	153,466
Expenditures	(421,211)	(287,922)	(218,476)
Fund balance, June 30	\$ 2,601	(1,779)	82,830

Also, General Fund expenditures are budgeted to exceed revenues in 2010 by \$1,448. However, from July 2009 to February 2010, General Fund expenditures exceeded revenues by over \$16,000. If Federal Emergency Management Agency (FEMA) monies received and not yet spent are excluded, the fund balance at June 30, 2009, would be a deficit of \$63,443. Finally, at June 30, 2009, the General Fund owed over \$165,000 and \$3,000 to the Water Fund and Sewer Fund, respectively.

Additionally, the Board is not receiving adequate financial information. The financial reports presented to the Board need greater detail for the Board to properly monitor the financial condition of the city's various funds. Although the city's accountant prepares monthly profit and lost reports, these reports only present the current month's total revenues and expenditures of all funds, rather than presenting each fund individually with the monthly revenues and expenditures and beginning and ending fund balances.

Although the Mayor indicated the city is aware of the deteriorating condition of the General Fund, the city has not developed a formal plan to address the city's financial condition or specific plans to reduce expenditures and/or increase revenues. However, the city is anticipating increased revenues with the planned reopening of a local attraction which would result in increased tourism.

It is essential the Board address the situation both in the immediate- and long-term future. To improve the financial condition of the city, the Board should review expenditures and reduce spending as much as possible, evaluate controls and management practices to ensure efficient use of city resources, and attempt to maximize all sources of revenue. In addition, to effectively monitor the available cash and financial condition of each fund, the city needs complete financial reports.

Recommendation

The Board of Aldermen should closely monitor the city's financial condition and take the necessary steps to improve the financial condition of the General Fund. The Board should perform long-term planning and ensure



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revenues are maximized and expenditures are closely monitored. The Board should also require monthly profit and lost reports be prepared that include revenues, expenditures, and beginning and ending balances for each fund.

Auditee's Response

The Board provided the following written response:

The Mayor and the Board of Aldermen agree with the State Auditor and had our accountant modify our financial reports in February of 2010 upon recommendations during the auditing process to include monthly profit and loss reports. The Board will address the fund balances with the city's accounting firm and the CPA. The Board of Aldermen would like note to be taken that the amount of revenues for 2009 is inflated due to FEMA money for flood recovery.

2. Budgeting

Improvement is needed in controls and procedures over budgeting.

2.1 Budgets

City budgets are not complete. The budgets do not include a budget message, beginning and estimated ending resources, a comparison between budgeted and actual amounts for the 2 preceding years, or amounts related to the debt of the city.

Additionally, the budget to actual reports of each fund's revenues and expenditures are only prepared on a quarterly, not a monthly basis, and beginning and ending fund balances are not presented. As a result, the city is not receiving timely or sufficient information needed to determine if revenues and expenditures are meeting budget expectations.

Section 67.010, RSMo, requires the preparation of an annual budget with specific information. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing financial expectations for each area of city operations. It will also assist in setting utility rates and informing the public about city operations and current finances. Additionally, to effectively monitor budgets and make informed decisions about city operations, the Board needs timely and complete budget to actual reports.

2.2 Budget amendments

The city does not amend its budget when actual expenditures exceed the budgeted amount. For example, the city did not amend the budget when unexpected FEMA monies were received and spent in fiscal year 2009. As a result, actual expenditures exceeded budgeted amounts by \$172,959 and \$108,205 in the General Fund and Water Fund, respectively. Budgets should be amended before expenditures occur.



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Section 67.040, RSMo, requires political subdivisions to keep actual expenditures within amounts budgeted unless the governing body adopts a resolution setting forth the facts and reasons for the increase.

Recommendations

The Board of Aldermen:

- 2.1 Prepare annual budgets that contain all information as required by state law. The Board should also require monthly budget to actual reports be prepared that include the beginning and ending fund balance.
- 2.2 Prepare budget amendments prior to incurring expenditures to ensure compliance with state law.

Auditee's Response

The Board provided the following written responses:

- 2.1 *The Mayor and the Board of Aldermen agree with the State Auditor and all future budgets will be prepared in accordance with state law. Further we have changed our monthly budget to actual reports to be prepared to include beginning and ending fund balance as of March 2010.*
- 2.2 *The Mayor and the Board of Aldermen agree with the State Auditor and all actual expenditures versus budget amounts will be monitored and the budget amended to ensure compliance with state law.*

3. Financial Reporting

There is no support for the transfer of monies between funds. Also, semiannual financial statements are not complete or published timely.

3.1 Interfund transfers

The city did not maintain supporting documentation for the transfer of monies between funds. The Certified Public Accountant (CPA), contracted to perform the annual audit of the city, increases and/or decreases the amounts due to/from funds based on current year transfers. It appears these due to/from amounts have accumulated for many years, and the interfund transfers are made without provisions for repayment. At June 30, 2009, the due to/from amounts are as follows:

Fund	Due To	Due From
General	\$ 0	168,689
Tax Increment Financing	0	10,776
River Heritage	3,147	0
Water	189,843	0
Sewer	3,348	0
Cemetery	0	16,883



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Currently, the city has no plan to repay these monies. Although short-term interfund transfers are sometimes necessary to overcome temporary cash flow problems, interfund transfers are not appropriate as a long-term funding mechanism. In addition, restricted revenues should not be spent for other than their intended purpose.

3.2 Published financial statements

The city did not publish its semiannual financial statements timely. The financial statements for the 6 months ended December 31, 2008, and June 30, 2009, were not published until April 2009 and January 2010, respectively. Additionally, the semiannual statement for the 6 months ended June 30, 2009, did not fully comply with statutory requirements. The revenues and expenditures of each fund are combined and presented as one consolidated fund, the various bank accounts and investment balances were presented rather than the beginning and ending fund balances, and the indebtedness of the city was not presented.

Section 79.160, RSMo, requires the city to prepare and publish ". . . a full and detailed account and statement of the receipts and expenditures and indebtedness of the city . . ." within a month after the end of the period. Complete and detailed financial statements are necessary to keep citizens informed of the financial activity and condition of the city.

Recommendations

The Board of Aldermen:

- 3.1 Discontinue the practice of making long-term interfund transfers. The Board should develop and implement a repayment schedule for the amounts due to the various funds. Any future short-term transfers between funds should be supported with adequate documentation and a repayment schedule.
- 3.2 Ensure the city's semiannual financial statements present complete financial information as required by state law.

Auditee's Response

The Board provided the following written responses:

- 3.1 *The Mayor and the Board of Aldermen agree with the State Auditor and any future short term transfers between funds will be supported with adequate documentation and a repayment schedule. However it is not the practice of the Board to make inter-fund transfers that are not documented and for a specific purpose (i.e. payroll, sewer utility surcharge, debt reserve). The possibility exists that the amounts due to the various funds are not 100% accurate. A change in CPA firms was made fiscal year 2004-05. The city had not established fund accounting at that time and the CPA assisted the city in doing so thus creating the various 'Due To' amounts. Fiscal year 2007-08, another CPA firm was awarded the year-end audit. The prior firm*



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refused to provide work papers to the new firm. Therefore, the validity of these funds, as well as the fair allocations of expenses between the funds cannot be confirmed. Thus the Board will take the recommendation to develop and implement a repayment schedule for the amounts due to the various funds under advisement.

3.2 *The Mayor and the Board of Aldermen agree with the State Auditor that all future financial statements will be prepared in compliance with state law, Section 79.160, RSMo.*

4. City Collector

Significant weaknesses were identified in the controls, records, and procedures over the property tax system. As a result, there is less assurance that all property tax monies have been handled and accounted for properly. The City Collector received over \$29,000 in property taxes during the year ended June 30, 2009.

For the 2009 tax year, the City Collector implemented a new computer system to prepare the tax books and generate taxpayer statements. Prior to 2009, spreadsheet software was used to generate the tax books and record payments, and taxpayer statements were manually prepared, using a three part invoice.

4.1 Segregation of duties

The duties performed by the City Collector are not adequately segregated, and there is no independent review of the City Collector's controls, records, and procedures. The City Collector is responsible for performing the following functions:

- Extend tax books
- Prepare tax statements
- Collect payments
- Record payments
- Make deposits
- Maintain tax records

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance all transactions are accounted for properly, and assets are adequately safeguarded. An adequate system of internal controls requires segregation of duties. If this is not feasible, the Board should, at a minimum, designate someone independent of the tax collection process to perform and document periodic reviews of the City Collector's procedures and records.

4.2 Tax books

The City Clerk does not perform an independent review of the tax book information or totals to ensure they are correct, or charge the City Collector with the amount to be collected. The City Collector enters the property assessed value from the assessment list prepared by the Pike County



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Assessor and the city approved levy in the computer, and generates the tax book and statements.

Section 94.290, RSMo, requires the City Clerk to charge the City Collector with the amount to be collected. Verification of tax book information and totals is necessary to ensure the amount charged to the City Collector is complete and accurate and to provide some independent review and control over city tax collections.

4.3 Procedures and records

Numerous weaknesses were noted in the City Collector's current procedures and records.

- The City Collector does not reconcile the total assessed valuations recorded in the city's tax books to the assessment list prepared by the Pike County Assessor. Thus, there is less assurance that all assessed valuations were correctly recorded on the city records. Although we materially agreed the total assessed values recorded in the city's tax book to the county's assessed values for the 2009 tax book, our review of ten tax records discovered a taxpayer was billed \$159 for real estate which had been sold in the prior year.
- The City Collector does not recalculate tax statements on a test basis to ensure the tax was accurately extended.
- The tax statements are not adequate. The statements do not always include a description of all property taxed, the related assessed valuation, or tax levy. For example, a taxpayer was billed a total of \$4,150 for five vehicles but the tax statement only identified two vehicles.
- Current year tax statements only include the penalty due for the first month, and not the penalty for additional months. Also, delinquent tax amounts from prior years are not shown on the tax statement.
- The date paid entered in the computer is the deposit date rather than the date payment was received.

To help ensure errors and inconsistencies are found and corrected on a timely basis, the City Collector needs to ensure tax statements are complete, accurate, and contain all relevant information such as all property taxed, related assessed valuations, and the tax levy. Additionally, including delinquent tax amounts on tax statements helps provide assurance that delinquent taxes are properly collected. Also, to prevent confusion and unnecessary penalties, the actual payment date, not deposit date, should be entered in the computer.



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4.4 Account book

The City Collector does not maintain an account book to record property tax charges, additions/abatements, collections, and delinquent taxes. Tax records maintained by the City Collector include the tax book and statements. However, the information maintained does not summarize the total taxes charged, added/abated, or collected and delinquent taxes.

A properly maintained account book (including the property taxes charged to the City Collector at the beginning of the year, collections each month, applicable adjustments, and balances uncollected) can be useful in preparing the annual report required by state law, ensuring the taxes charged and credited to the City Collector are complete and accurate, and detecting any errors or irregularities on a timely basis.

4.5 Additions and abatements The City Collector posts additions and abatements to the tax books without review and approval by the Board. To ensure all additions and abatements are proper, they should be approved by the Board, charged to the City Collector, and reflected in the annual report to the Board.

4.6 Reports

The City Collector does not prepare appropriate reports for the Board as required by state law.

- A detailed annual report is not prepared. Although the City Collector prepares a report which identifies the total taxes billed and collected by tax type for the current year and the total delinquent taxes paid, the report does not list the delinquent taxes collected by year or type.

Section 79.310, RSMo, requires the city collector to make a detailed annual report to the Board, stating the monies collected during the year and the amounts uncollected. A detailed annual report which complies with state law and is classified by type of tax would provide assurance taxes are properly collected, written off, or determined to be delinquent. Such a report would summarize all taxes charged to the city collector at the beginning of the tax year, monthly collections, delinquent credits, abatements and additions, and protested amounts. Without such a report, examined by the Board, any errors or irregularities that might occur are likely to go undetected.

- An annual list of delinquent taxes is not always prepared. The City Collector did not prepare a delinquent list for 2006 or 2008. In addition, the delinquent report prepared in 2007 was not presented to the Board timely, and the 2009 delinquent list does not list the delinquent taxes by tax type.

Section 94.320, RSMo, provides the Board shall require the city collector, at the first meeting of the Board in April each year, to prepare



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lists of delinquent taxes. This section also requires the Board to examine and approve the lists and charge the city collector with the taxes due.

- The City Collector's monthly report to the Board does not include a list of delinquent tax collections by year. Section 94.330, RSMo, requires the city collector to report to the Board at the regular meeting each month all taxes collected on real and personal delinquent lists.

4.7 Delinquent taxes

The city does not adequately pursue collection of delinquent taxes. Although the City Collector mails delinquent tax notices for amounts due and publishes a list of delinquent taxes in the local newspaper, the city has not conducted sales of real property to collect delinquent taxes on such property or abated delinquent personal property taxes as allowed by state law.

At our request, the City Collector prepared a list of delinquent real estate and personal property taxes as of February 22, 2010. The total delinquent taxes was \$19,902, and some delinquent amounts dated back to 2000.

Section 140.150, RSMo, provides that all land on which there are delinquent taxes may be offered for sale at public auction. Section 140.160, RSMo, also provides the sale shall not be valid unless initial proceedings are commenced within 3 years after the delinquency of such taxes. Section 94.330, RSMo, provides the Board ". . . may declare worthless any and all personal delinquent taxes they deem uncollectible"

4.8 Automobile stickers

The City Collector does not maintain a list documenting the residents who purchased automobile stickers, the relevant sticker number issued, and delinquent residents.

City ordinance 674 provides that city residents must purchase a \$4 automobile license sticker for each vehicle they own to indicate that personal property taxes were paid.

Adequate records are necessary to ensure all residents of the city are treated fairly and equitably, and stickers are purchased as required by city policy. Also, maintaining documentation will help ensure the city maximizes revenues.

4.9 Collector's compensation

The City Collector's compensation was not established by ordinance. The City Collector receives a 5 percent commission on all property taxes and license fees collected and a 25 cent commission for each automobile sticker issued. When we brought this situation to the city's attention, the city established an ordinance in February 2010, establishing the City Collector's compensation. In addition to the commissions on property taxes, license



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fees, and automobile stickers, the ordinance provided that the City Collector be paid \$5 an hour.

Section 79.270, RSMo, provides that city officials and employee salaries be set by ordinance.

Recommendations

The Board of Aldermen:

- 4.1 Designate someone independent of the tax collection process to perform and document periodic reviews of the City Collector's records.
- 4.2 Require the City Clerk to verify the accuracy of the tax book and statements. In addition, the City Clerk should charge the City Collector with the amount of taxes to be collected.
- 4.3 Require the City Collector to reconcile the assessed valuations entered in the city's tax system to the valuations provided by the County Assessor and recalculate tax statements on a test basis to ensure the tax due was properly extended. In addition, all property taxed and related assessed valuations should be on the tax statements, as well as, all delinquent penalty amounts and prior year delinquent amounts. In addition, the date the tax was paid should be recorded in the computer.
- 4.4 Require the City Collector to maintain an account book.
- 4.5 Review and approve all additions and abatements made to the tax book.
- 4.6 Require the City Collector to prepare a detailed annual report for presentation to the Board. In addition, the Board should require the City Collector to prepare an annual list of delinquent taxes for approval by the Board. All valid delinquent taxes which the Board does not choose to abate or write-off should be charged back to the City Collector for collection in the ensuing year. Finally, the Board should require the City Collector to include the breakdown of current and delinquent tax collections on her monthly report to the Board.
- 4.7 Adopt a comprehensive policy for the collection of delinquent taxes, including holding tax sales and abating uncollectible personal property, as needed.
- 4.8 Require the City Collector to maintain documentation of automobile stickers issued and delinquent accounts.



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- 4.9 Ensure the City Collector's compensation and applicable changes to the compensation are established by ordinance.

Auditee's Response

The Board provided the following written responses:

- 4.9 *The Mayor and the Board of Aldermen agree with the State Auditor and have passed Ordinance # 836 on February 18, 2010 setting the compensation for the City Collector.*

The Mayor and the Board of Aldermen agree with the following responses made by the City Collector and will require these recommendations to be implemented.

The City Collector provided the following written responses:

- 4.1 *The City Collector agrees with the State Auditor that there should be an independent review of the City Collector's controls, records and procedures. The Board plans to designate the Mayor to perform periodic reviews of the Collector's work to improve and resolve this issue. This practice will be implemented immediately.*

- 4.2 *The City Collector agrees with the State Auditor that the City Clerk should perform an independent review of the tax book information and totals to ensure that they are correct and charge the City Collector with the amount to be collected. The Board plans to have the City Clerk verify the accuracy of the tax book and statements and will implement this practice in August after the assessments have been received from the county and entered into the tax book for 2010's taxes.*

- 4.3 *The City Collector agrees with the State Auditor that the City Collector should reconcile the assessed valuations entered in the city's tax system to the valuations provided by the County Assessor and recalculate a sample of tax statements to ensure the tax was properly extended. The Collector will perform these tasks as well as verify all property taxed and related assessed valuations and penalty amounts (current and prior years) are included on the statements. This action will be taken as the 2010 tax statements are prepared.*

- 4.4 *The City Collector agrees with the State Auditor that the City Collector should properly maintain an account book that includes the property taxes charged to the City Collector at the beginning of the year, additions/abatements, collections and remaining delinquent taxes. The City Collector has taken immediate action on this and is in the process of compiling the information necessary to set such an account book up.*



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- 4.5 *The City Collector agrees with the State Auditor that to ensure all additions and abatements are proper, they should be approved by the Board, charged to the City Collector, and reflected in the annual report to the Board. The City Collector will submit any additions and abatements to the Board for approval and include this information on the annual report. This procedure will be adopted immediately.*
- 4.6 *The City Collector agrees with the State Auditor that the City Collector should prepare a detailed annual report identifying the total taxes billed and collected by tax type for the current year, as well as the total delinquent taxes collected by year and type. The City Collector has addressed immediate attention to this detailed report and will present the Board with an up to date report at their August monthly meeting. The City Collector also agrees with the State Auditor that the City Collector should include a list of delinquent tax collections by year in the monthly report. This information will be included in the City Collector's next monthly report.*
- 4.7 *The City Collector agrees with the State Auditor that the City should adopt a comprehensive policy for the collection of delinquent taxes. The City Collector will continue to mail delinquent tax notices for amounts due, as well as include any delinquent taxes on their tax statements each year. The City Collector will also prepare a list of delinquent taxes to publish in the local newspaper, pending the approval of the Board. The Board will decide on any further action taken, such as conducting sales of real property to collect delinquent taxes and will adopt a comprehensive policy for the collection of delinquent taxes.*
- 4.8 *The City Collector agrees with the State Auditor that the City Collector should maintain a list documenting the residents who purchased automobile stickers, the relevant sticker number issued and delinquent residents. The City Collector has already completed this task, and there is an existing list with all of this information included.*

5. Meetings and Minutes

Meeting notices and agendas are not sufficient, meetings are not properly closed, minutes of closed meetings are not adequate, and closed meeting votes/decisions are not made available to the public.

5.1 Notices and agendas

Meeting notices and agendas use the same statement for each meeting to indicate the potential for a closed meeting, although no closed meeting is planned or held. The statement indicates ". . . A vote may be taken to close part of the meeting pursuant to 610.021 RSMo for the purpose of discussing



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the following: Hiring, firing, disciplining or promoting of particular employees and discussing personal information, individually, identifiable personnel records, performance ratings or records pertaining to employees or applicants for employment, and attorney communications"

Section 610.022, RSMo, provides that a public governmental body planning to hold a closed meeting should follow the notice procedures for an open meeting and include there will be a closed meeting and cite the specific exception allowing the closure of the meeting. A statement which includes potential issues that may be discussed in a closed meeting appears to circumvent the intent of the law.

5.2 Closed meetings

The following weaknesses were noted regarding closed meetings:

- A roll call vote to go into a closed meeting is not always taken and/or recorded in the minutes.
- The minutes for open meetings do not always document the specific reasons for closing the meeting. For example, the open meeting minutes on January 7, 2009, and February 2, 2009, did not state the reason for the closed meetings.
- The closed minutes were not sufficient to demonstrate that issues discussed were allowable under Chapter 610, RSMo, the Sunshine Law. Some of these issues discussed include sending an employee to school, establishing a clothing allowance, proposing an ordinance for enforcing a curfew for minors, and whether board members should receive compensation for work during the flood in 2008.
- Minutes for closed meetings were not always prepared.
- The city does not always make available to the public the final disposition of matters discussed in closed meetings. For example, information regarding the hiring and firing of employees is generally not made available to the public.

Chapter 610, RSMo, provides that the question of holding a closed meeting and the reason for the closed meeting be voted on at an open meeting and requires minutes be prepared for all closed meetings. The law also provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, and limits what types of topics can be discussed in closed meetings. In addition, Chapter 610, RSMo, and Attorney General's Opinion Nos. 129-97 to Green and 30-88 to Kelly, provide that after the closed meeting, the governmental body must disclose the vote of each member, not just the vote total or results. The vote also includes the proposition voted on



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and matters or materials referred to with the proposition. The minutes should provide sufficient details of discussions to demonstrate compliance with statutory provisions and support important decisions.

Recommendations

The Board of Aldermen:

- 5.1 Ensure the agenda and notice state the specific reasons for going into a closed meeting.
- 5.2 Ensure a roll call vote is taken during open meetings to close any meeting and minutes document the votes/reasons for holding a closed meeting. The Board should also ensure the items discussed in closed meetings are allowed by the Sunshine Law and are limited to only those specific reasons cited to justify such a closed meeting. Votes taken and decisions made in closed meetings should be properly disclosed to the public.

Auditee's Response

The Board provided the following written responses:

- 5.1 *The Mayor and the Board of Aldermen agree to continue to ensure the agenda and notice stating the specific reasons for going into closed session meet with Chapter 610 RSMo and are in compliance with the Sunshine Law.*
- 5.2 *The Mayor and the Board of Aldermen agree with the State Auditor's recommendation to confirm that proper procedure is followed for all closed meetings and roll calls, limiting discussions to only those specific reasons cited, recording and public reporting of votes and decisions in closed meetings follow the Sunshine Law.*

6. Utility Policies, Procedures, and Records

There are significant weaknesses in operations related to water, sewer, and trash services. As a result, there is less assurance utility monies are handled and accounted for properly.

City ordinances provide that bills are due on the first day of the month, with a 5 percent late fee assessed if the bill is not paid by the tenth of the month. Residents have until the fifteenth of the month before service is disconnected, and landlords are responsible for delinquent amounts if the renter does not pay. There is a \$50 reconnect fee. For the year ended June 30, 2009, water, sewer, and trash receipts totaled approximately \$89,000, \$57,000, and \$20,000, respectively.

6.1 Reconciliations

Reports reconciling total gallons of water billed to gallons of water pumped were either not prepared or not retained for several months in 2009. In addition, these reports are not presented to the Board for its review.



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At our request, the city's water supervisor reconciled the water pumped to water billed for December 2009. The water pumped was more than water usage billed/identified by approximately 28 percent. The Public Service Commission generally recommends investigation if water usage not billed exceeds 15 percent.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water pumped to gallons of water billed on a monthly basis and investigate significant differences. Documentation of the reconciliation should be retained to support conclusions and to facilitate independent review by the Board.

6.2 Delinquent accounts

Delinquent accounts are not handled in accordance with city policy and ordinances. At the end of January 2010, there were 65 accounts, totaling over \$5,100, delinquent for over 30 days.

Our review of 29 of these delinquent accounts revealed numerous instances where 1) accounts were delinquent for many months, 2) delinquent notices were not sent consistently, and 3) utilities were not disconnected. Also, landlords were not required to pay delinquent amounts for their renters.

To help reduce delinquencies and to ensure delinquent accounts are properly handled and all customers are treated equitably, the city should follow its ordinance regarding shut-off procedures for delinquent accounts. Also, failure to properly handle and account for delinquent accounts may result in loss of revenue.

6.3 Partial payments

Although the city does not have a policy regarding partial payments by customers who have delinquent accounts, some customers are allowed to make partial payments without Board approval. In addition, these customers are not required to sign an agreement for the payment arrangements. This has resulted in customers paying different amounts each month. For example, one customer made various payments of \$75 to \$125 a month from July 2009 through December 2009, with no payment made in October 2009.

To ensure all customers are treated equitably, a formal policy should be established documenting the process to determine when payment plans are allowed, how the payment amount is to be established, and the approval process for these arrangements. In addition, a signed written payment agreement is necessary to indicate the intent of the customer to pay the outstanding balance and to aid in accounting for and collecting the amounts due to the city.



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6.4 Adjustments

Although some adjustments may be necessary to correct inaccurate billings, the utility clerk has the ability and authority to record credit adjustments to the computer system without documenting each adjustment or obtaining approval. Our review of 29 delinquent accounts found adjustments, totaling \$14,794, which reduced utility bills for six customers. There was no documentation to support these adjustments.

To ensure adjustments to utility bills are correct and proper, the city should establish a formal policy regarding the preparation and approval of all adjustments. Adequate documentation should be retained to support the adjustments.

6.5 Manual bills

The city did not retain adequate documentation to support estimated readings and manual bills prepared when the utility system crashed in November 2008. In addition, the accounts were not reconciled with subsequent actual readings.

When the system crashed, manual statements were prepared for December 2008 to February 2009. Although estimated readings were used for November (billed in December), actual readings were available in subsequent months. However, during this period, no documentation was maintained/retained to support 1) how the amounts due were calculated, 2) if payments were received and recorded, or 3) if customers paid outstanding amounts due before the computer crash. Prior to the crash, the amount due from customers totaled over \$13,000. We recalculated two customer statements for this period and noted both were under billed, one by \$29 and the other by \$26. A new computerized utility system was implemented in March 2009; however, no customer balances due were entered in the system.

To ensure all utility revenue is collected, the city needs to ensure utility bills are properly calculated, payments are properly recorded, and balances due are correct. The city should consider recalculating customer bills manually prepared from December 2008 to February 2009. In the future, the city should ensure manual bills and estimated readings are reconciled to subsequent actual readings.

6.6 Trash service

The trash rate charged to customers is not set by ordinance. In addition, the rate does not cover the cost of the service. For the year ended June 30, 2009, Sanitation Fund expenditures exceeded revenues by almost \$5,000. The city may not be charging all applicable customers for trash service or the trash company may not be charging the city the appropriate number of customers.

The city also has no documentation to support the fee charged for the service. For example, in February 2010, the city charged each customer over \$2 above the amount the trash company was charging the city for each



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customer. However, the city has not documented the rationale for charging this fee or the costs of providing the trash collection services.

The user fee charged to customers should be set at a level sufficient to cover the costs of the service, and the city should calculate and document the costs of providing trash collection services. In addition, the rates charged to customers should be set by ordinance.

Recommendations

The Board of Aldermen:

- 6.1 Ensure a monthly reconciliation of water pumped to water billed is prepared and significant differences are investigated.
- 6.2 Ensure delinquent accounts are handled in accordance with city ordinances.
- 6.3 Establish a formal written policy regarding partial payments for delinquent accounts. A signed written agreement should be obtained to support the payment arrangement.
- 6.4 Establish a formal written policy regarding adjustments to utility bills. The Board should review and approve all adjustments, and adequate documentation should be prepared and retained to support any adjustment.
- 6.5 Consider recalculating customer bills manually prepared from December 2008 to February 2009. The Board should also ensure adequate documentation is maintained and retained for any estimated readings and/or manual bills and the readings/bills are reconciled to subsequent actual readings.
- 6.6 Establish user fees for trash service at a level sufficient to cover the costs of the service. The Board should also review the costs of administering trash pick-up services and document the amount of administration costs associated with the service. In addition, trash rates should be established by ordinance.

Auditee's Response

The Board provided the following written responses:

- 6.1 *The Mayor and the Board of Aldermen agree with the State Auditor regarding monthly Utility Supervisor reports. This monthly report has been presented to the council on the first meeting of the month since January 2010. The report includes water pumped, water sold to customers, bulk water sold, water used at the plant, water lost through leaks, hydrant flushing etc, and percent of water not*



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accounted for. To address water loss above 15% Missouri Rural Water Association has been contacted to assist in leak detection.

- 6.2 *The Mayor and the Board of Aldermen agree with the State Auditor and on July 1, 2010 passed a new Utility Ordinance # 848. Customers are now required to pay their total bill by the 10th or pay a 5% penalty if they pay between the 11th and 15th. Accounts not paid by the 15th are now disconnected on the 16th. Reconnection of water is not made until the bill and a \$50 reconnect fee is paid. The Board of Aldermen agree to ensure these accounts be handled in accordance with City Ordinances.*
- 6.3 *The Mayor and the Board of Aldermen agree with the State Auditor and have now established that, by ordinance # 848, partial payments are no longer allowed.*
- 6.4 *The Mayor and the Board of Aldermen agree with the State Auditor and have established adjustments be made to sewer charges when a customer uses water that does not enter the sewer system such as leaks or filling of a swimming pool. All adjustments are noted and explained in the note pad section of the customer's profile. If an adjustment is to be made for incorrect reading of the meter or any other cause it will be noted on customer's profile. Any adjustments made during the month will be included in the monthly water report and a paper trail maintained.*
- 6.5 *The Mayor and the Board of Aldermen agree with the State Auditor and a new billing program has been purchased and is being used to accurately calculate and track all aspects of the billing. All information entered is backed up regularly on the computer and a paper trail maintained on each customer's water card. Water bills are no longer estimated. Due to the crash in the previous water billing program estimations were made and billing was adjusted and handled in the best way possible given the situation.*
- 6.6 *The Mayor and the Board of Aldermen agree with the State Auditor and all accounts have been reviewed recently to assure that all customers receiving trash pickup are being charged for the service. In accordance with ordinance #848 Eagle Ridge has the updated list. The charge will be reviewed and adjusted if necessary. An ordinance will be passed within six months to set the trash rate.*



7. Expenditures

Policies and controls over expenditures need improvement.

7.1 Bidding policy

Although the city has a purchasing policy for the purchase of goods and services, the policy does not state when Board approval is required for items bid or the type of documentation to be obtained or retained. The current policy requires the City Clerk to ensure three bids are obtained (i.e., phone contacts, inquiries, etc.) for purchases over \$200 unless the City Clerk perceives it is not possible to obtain three bids. The Board occasionally approves bids.

In addition, adequate bid documentation is not obtained and/or retained. For example, bids and/or proposals were either not solicited or bid documentation was not retained for the following purchases during the year ended June 30, 2009:

Goods/Services	Amount Paid
City development consultant	\$ 50,000
Sidewalks	25,264
Landscaping	22,000
Fuel	19,455
Pump repairs	18,822
Salt	16,074
Computer software	13,181
Accounting services	5,975
Track repair	2,800
Hauling	2,500

Also, the city extended the original 5-year contract for trash services for 5 additional years, to February 2014, without obtaining bids. The addendum provides that the company may increase residential rates by 40 cents per resident on each annual anniversary date of contract.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. In addition, written documentation of bids/proposals should be maintained. Bid documentation should include a list of vendors contacted, a copy of the bid specifications, copies of all bids/proposals received, justification for awarding the bid/proposal, and documentation of discussions with vendors.

7.2 Controls

Purchase orders are not always obtained, two signatures on checks are not always used, and Board approval of expenditures is not always retained.

The city's purchasing policy requires a purchase order be reviewed and approved by the City Clerk for all purchases, except in emergency



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situations. The Mayor indicated the current policy is for the Board to approve all purchase orders over \$500 before the purchase of the goods/services. Also, payroll checks require one signature while two signatures are required on all other accounts. The Mayor and City Clerk are the only authorized signers for all bank accounts, and the City Clerk prepares all checks. Additionally, the Board is to approve all expenditures.

The following weaknesses were noted in the controls over expenditures:

- Purchase orders are not always attached and/or the purchase order number was not recorded on the invoice. Our review noted 13 of 28 (46 percent) expenditures did not have a purchase order attached or the number recorded on the invoices. In addition, there was no indication these purchases were emergency purchases.
- General account checks, totaling over \$10,500, issued in November and December 2009, contained only the Mayor's signature. City policy requires two signatures on the general account checks.
- Although a list of expenditures is approved by the Board at the regular meetings, the approved list is not always retained.

To reduce the possibility of fraud or misuse of city assets, the Board should ensure purchases are properly authorized by attaching the approved purchase order to vendor invoices and/or recording the purchase order number on the vendor invoice. Also, general account checks should include two signatures. Additionally, to adequately document the Board's review and approval of expenditures, the approved list of expenditures should be retained.

Recommendations

The Board of Aldermen:

- 7.1 Establish a formal comprehensive purchasing policy, including documentation and approval requirements and justification for bids/proposals selected.
- 7.2 Ensure purchase orders are attached to vendor invoices and/or the purchase order number is recorded on the invoice. The Board should also ensure checks include two signatures. In addition, the Board should ensure the approved list of expenditures is retained.

Auditee's Response

The Board provided the following written responses:

- 7.1 *The Mayor and the Board of Aldermen agree with the State Auditor to be more diligent in following our established ordinance policies*



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as outlined in Chapter 135 of Clarksville City Codes especially in regard to retaining bids.

7.2 *The Mayor and the Board of Aldermen agree with the State Auditor regarding purchase orders and will ensure henceforth that purchase order numbers are recorded, approved list of expenditures retained and checks include two signatures.*

8. Controls Over Revenues

Internal controls and procedures over revenue collections need improvement.

The city collects monies for property and tourism taxes, utility payments, franchise fees, licenses, grants, copies, and other fees. The city collected over \$540,000 (excluding direct deposits) during the year ended June 30, 2009.

8.1 Collecting

As a result of not issuing receipt slips for all monies received and not consistently recording the method of payment, the composition of receipts cannot be reconciled to the composition of deposits. For other than tax and utility collections, prenumbered receipt slips are not issued for monies received by check or money order. In addition, receipt slips are not issued for all cash received. For example, a January 2010 deposit included a cash donation of \$24 for which a receipt slip was not issued. In addition, the date and method of payment (i.e. cash, check, or money order), is not consistently recorded on utility payment stubs, and utility payment stubs are not always retained to support the amount deposited and recorded. For example, the December 21 and 23, 2009, deposits included 20 utility payments; however, payment stubs were missing for 12 of the payments (60 percent).

To adequately safeguard monies received, prenumbered receipts slips should be issued for all monies received, and the composition of receipts should be reconciled to the composition of deposits. In addition, to ensure utility receipts are recorded and accounted for properly, the date and method of payment should be documented on the payment stub and all payment stubs should be retained.

8.2 Depositing

The following weaknesses were noted over the depositing of revenues.

- Monies are not deposited on a timely basis. Monies received for the payment of real estate and personal property taxes are receipted and deposited weekly by the City Collector. From November 2009 to January 2010, 12 deposits averaged over \$2,000.
- Monies collected and placed in the change drawer for copies and notary fees are usually not deposited for several months. For



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example, a deposit, totaling \$89, was made in January 2010 for monies collected for the preceding 6 months.

- Checks and money orders are restrictively endorsed when a deposit is prepared rather than immediately upon receipt.

To reduce the risk of loss or misuse of funds, all monies should be deposited timely and checks and money orders should be restrictively endorsed immediately upon receipt.

8.3 Tourism tax

The city does not examine or inspect the books and records of hotels/motels to ensure all tourism taxes due are collected. In addition, some entities may not be submitting quarterly tax reports to the city as required. As a result, there is no assurance the city is maximizing revenues generated from the tourism tax. The city received tourism taxes totaling \$1,479, \$2,004, and \$3,715 in 2009, 2008, and 2007, respectively.

Chapter 721 of the city code provides for the collection of a 5 percent tax on hotel/motel charges, authorizes the city to examine and inspect the books and records of the hotels/motels to ensure the amounts reported are accurate, and requires a quarterly report of gross receipts be submitted by the hotels/motels.

To ensure hotels/motels are accurately reporting gross receipts, the city should consider implementing procedures to periodically examine the records of the hotels and motels in the city. The city should also ensure quarterly tax reports are submitted by the hotels/motels, as required.

Recommendations

The Board of Aldermen:

- 8.1 Require receipts slips be issued for all monies received, and the composition of receipts be reconciled to the composition of deposits. Also, the date and method of payment should be recorded on utility payment stubs and all payment stubs should be retained.
- 8.2 Require checks/money orders be restrictively endorsed immediately upon receipt, and all monies be deposited timely.
- 8.3 Implement procedures to periodically examine the books and records of hotels/motels to ensure gross receipts used to calculate tourism taxes are accurate, and ensure tax reports are submitted by the hotels/motels, as required.



Auditee's Response

The Board provided the following written responses:

8.1

&8.2 *The Mayor and the Board of Aldermen agree with the State Auditor's recommendations and have implemented your recommendations as instructions to those who handle city money (i.e. Clerk, Utilities Operator, Collector). This was done as of March of 2010.*

8.3 *The Mayor and the Board of Aldermen agrees with the State Auditor's recommendation to physically examine gross receipts of Hotel/Motel records in the City of Clarksville and has implemented a quarterly mailed notice of payment due as of June 2010.*

9. Tax Increment Financing

There are significant weaknesses regarding the city's management and oversight of its Tax Increment Financing (TIF) district. The city did not ensure there was an active TIF Commission to control and finish the TIF project on a timely basis. According to city officials, the TIF Commission has not been active for many years. Also, city officials state that the 2008 flooding of the downtown area disrupted efforts by the city to work on the project. As a result, the TIF project has not been completed and funds have not been received or expended as originally intended.

The city established a TIF district for the downtown area in 1989, effective through 2012. The TIF district is part of an overall Downtown Revitalization Plan, and this revitalization plan was to be a joint public/private endeavor, totaling \$424,000. The city was to obtain a Community Development Block Grant (CDBG) totaling \$70,800, use \$62,800 of city funds, and spend \$8,000 for city staff time on the administration and inspection of the project and grant. The private financing, totaling \$282,400, was to be for private building and façade renovations.

The TIF project was to provide 1) decorative street lights, 2) sidewalks, 3) signs, 4) trash receptacles, 5) town directory, 6) banners, 7) storm sewer and grates, and 8) bicycle racks. The city planned to borrow funds to pay the majority of its share of the costs, and the funds and related financing costs were to be repaid through TIF revenues. However, the city elected to pay project costs as the costs were incurred, rather than borrowing any funds. In addition, the city did not receive a CDBG.

The TIF revenues are collected by Pike County and remitted to the city. As of June 30, 2009, the city has received over \$92,000 in TIF monies from the county, and the TIF bank account balance is almost \$65,000 (includes over \$10,000 of interest earned).



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We noted the following weaknesses in the management and oversight of the TIF:

- Adequate records have not been maintained to support the project progress and costs. There are no records to support the \$8,000 for staff time used on administration and inspection. In addition, there is no supporting documentation to show that private financing, totaling \$282,400, was actually spent on building and façade renovations. Additionally, there is no documentation to show which specific items in the plan have or have not been completed and when items were completed. Thus, the city has little assurance the revitalization plan and TIF project are being completed as planned.
- The city did not file annual reports with the state. Although an annual report was filed in December 2009 for the year ended June 30, 2009, no previous reports were filed with the Missouri Department of Economic Development regarding the status of the project as required by Section 99.865, RSMo. The report is to include information such as the payments made in lieu of taxes received and expended and the original and current assessed property valuations.
- The city has not held public hearings every 5 years as required by Section 99.865, RSMo. The purpose of the hearing is to determine if the project is making satisfactory progress under the proposed schedule in the project plan. According to the Mayor, a public hearing is planned.
- The city could not demonstrate how some expenditures are allowable project costs, including 1) asphalt for streets, \$20,000; 2) street sweeper and parts, \$4,208; 3) park fence, \$4,073; and 4) Christmas decorations, \$3,708. TIF monies should only be used to pay for expenditures allowed by the approved project plan.

Additionally, the city and Pike County have not settled a dispute concerning the TIF monies collected by the county and remitted to the city. Because the Pike County Commission believes the city failed to properly manage and account for the TIF monies, the Prosecuting Attorney, at the County Commission's request, sent a letter, in January 2008, to the city indicating no additional TIF monies would be remitted to the city, and TIF monies collected would be held in escrow until the city can show proper management and use of the TIF monies. At June 30, 2010, Pike County was holding approximately \$68,000.

The city believes the original plan estimate was \$100,000 for the city's portion of project costs, and the estimate would be about \$160,000 in 2009 dollars. The city plans to use the TIF monies, totaling approximately \$76,000, held by the city for the city's match of a federal grant for



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stormwater/drainage improvements in the downtown area. The city believes these improvements are within the scope of the project plan.

Recommendation

The Board of Aldermen should ensure there is an active TIF Commission to oversee and manage the TIF project and complete the project in a timely manner. Adequate records should be maintained to support project costs. In addition, the Board should ensure annual reports are filed with the state and public hearings are held on the TIF project as required by state law. Also, the Board should investigate expenditures paid from TIF monies and reimburse the TIF Fund for any questionable costs. The Board should resolve the issues related to the TIF project with the Pike County Commission as soon as possible in order to ensure the project is completed in a timely manner and monies are spent appropriately.

Auditee's Response

The Board provided the following written response:

The Mayor and the Board of Aldermen agree with the State Auditor and as of July 2010 the Board of Aldermen have accepted the proposal of the Pike County Commissioners to end the Clarksville TIF district. The monies already collected are earmarked for our Storm Water Drainage and Streets grant as a matching fund.

10. FEMA Grant

Improvement is needed in the management and oversight of flood grant monies. A flood in June 2008 caused extensive damage in the city. As a result, the city qualified for federal disaster relief funds from the FEMA, and received \$307,692 from October 2008 to July 2009.

10.1 Grant monies

The FEMA monies were not accounted for properly. These monies were not maintained in a separate fund, but co-mingled with other city funds. As a result, the city has not adequately accounted for FEMA monies received but not used and may have used water and sewer funds for general city operations.

For example, the city received \$44,576 from the FEMA for three projects not yet started by the city; however, the city has only earmarked \$3,244 in a separate bank account for FEMA monies received and not spent. In addition, the city paid flood related expenditures totaling \$10,500 and \$2,440 from the Sewer Fund and Water Fund, respectively. However, the reimbursement from the FEMA was deposited in the General Fund. Also, an additional \$9,000 in flood related expenditures were paid from the Water Fund, but do not appear to be related to this fund.

Water and sewer revenues should only be used to cover the cost of providing the related service and not to subsidize other city services. In the future, the city should separately account for any FEMA grant monies received.



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10.2 Work projects

The city has not contacted the State Emergency Management Agency (SEMA) to request approval for an extension of time to complete some projects. As noted above, the city received \$44,576 for three projects which have not been started/completed. The project application contract indicates the projects were to be completed by December 2009. FEMA guidance requires a written extension request be submitted to the SEMA prior to the established completion date. Failure to submit a request timely or if the request is not approved could result in the FEMA de-obligating the project and requiring all funds be returned.

Recommendations

The Board of Aldermen:

- 10.1 Transfer \$10,500 and \$2,440 from the General Fund to the Sewer and Water Funds, respectively. The Board should also evaluate the flood related expenditures from the Water Fund to ensure these expenditures are valid expenses of the fund. The Board should also earmark the FEMA monies received for projects not yet completed to ensure the monies are available when needed. Additionally, any future FEMA monies should be accounted for separately.
- 10.2 Contact the SEMA to request an extension for all projects which have not been completed.

Auditee's Response

The Board provided the following written responses:

- 10.1 *The Mayor and the Board of Aldermen agree with the State Auditor and an account has been established for FEMA monies. This account will be maintained for any future needs so City money and FEMA money will not co-mingle. The Mayor and the Board of Aldermen will evaluate the flood related expenditures and pursue the fund balances with the city's accounting firm and CPA.*
- 10.2 *The Mayor and the Board of Aldermen agree with the State Auditor and will immediately contact SEMA to request an extension for all projects which have not yet been completed.*

11. Capital Assets

The city does not maintain comprehensive records of its capital assets. In addition, fuel usage is not reconciled to fuel purchases and commuting use of a city vehicle is not reported to the Internal Revenue Service (IRS).

11.1 Records

Although the city's auditor maintains a list of capital asset values, which are recorded on the city's financial statements, the city does not maintain a comprehensive record of its capital assets, including land, buildings, infrastructure, equipment, and furniture. Additionally, the list does not always include detailed descriptions of the assets. For example, some items were described as office equipment or vehicles. Also, property items are not



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tagged for specific identification and annual physical inventories of the property are not performed.

At year end, the auditor reviews capital purchases and discusses with the City Clerk items to be capitalized; however, we noted many small dollar items such as a pager, tool box, table, and flags capitalized. In addition, the city has not reviewed the auditor's list to ensure the assets listed are still in the possession of the city and all assets are included on the list. For example, we found a backhoe and tractor valued at \$35,000 and \$27,821, respectively, listed on the city's insurance, but not included on the auditor's list.

Capital asset records are necessary to ensure accountability and proper insurance coverage for city property. To develop appropriate records and procedures for capital assets, the city should undertake a comprehensive review of all property owned by the city and establish policies and procedures for capital assets.

11.2 Fuel purchases

Although fuel usage logs are maintained for the fuel tanks, fuel use is not reconciled to fuel purchases. The city maintains diesel and regular gasoline fuel tanks for use by the fire, street, and water/sewer departments. The city spent over \$3,800, \$6,600 and \$7,500 for fuel during the 9 months ended March 30, 2010, and the years ended June 30, 2009 and 2008, respectively. To ensure fuel costs for vehicles and equipment are reasonable, the city should reconcile fuel use to fuel purchases.

11.3 Commuting miles

The commuting use of a pick-up truck by the Street Superintendent is not reported to the IRS. According to city officials, this employee is allowed to commute with a city vehicle because he is on 24-hour call for emergency situations. He is not required to maintain a mileage log indicating business and personal use.

With certain exceptions, such as law enforcement and fire department personnel, the IRS reporting guidelines provide that personal commuting mileage is a reportable fringe benefit. Furthermore, IRS guidelines require the full value of the provided vehicle be reported on the employee W-2 forms if the employer does not require submission of detailed logs which distinguish between business and personal use. Additionally, the city may be subject to penalties and/or fines for failure to report all taxable benefits.

Recommendations

The Board of Aldermen:

- 11.1 Maintain property records for capital assets that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. These records should be updated for property additions and dispositions as they



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occur, and annual physical inventories should be performed and compared to the detailed records. In addition, all capital assets should be tagged as property of the city.

- 11.2 Reconcile fuel use to fuel purchases and investigate any differences.
- 11.3 Comply with IRS guidelines for reporting fringe benefits related to commuting in city owned vehicles. In addition, mileage logs should be maintained when vehicles are used for commuting.

Auditee's Response

The Board provided the following written responses:

- 11.1 *The Mayor and the Board of Aldermen agree with the State Auditor of the need to properly tag capital assets and maintain records to capital assets that include all pertinent information such as tag number, description, cost, acquisition date, location, and subsequent disposition. The capital asset records will be completed by the Board of Aldermen prior to December 31, 2010.*
- 11.2 *The Mayor and the Board of Aldermen agree with the State Auditor that fuel and fuel purchases need to be recorded. A plan has been implemented with a form at the gas pumps being filled out each time fuel is pumped. Data as to the person, department, vehicle, date, gallons, type of gas (diesel or regular) and initials is recorded and the form returned to the City Clerk.*
- 11.3 *The Mayor and the Board of Aldermen agree with the State Auditor to abide by the IRS rules in regard to reporting fringe benefits relating to commuting in City owned vehicles.*

City of Clarksville

Organization and Statistical Information

The City of Clarksville is located in Pike County. The city was incorporated in 1887 and is currently a fourth class city.

Mayor and Board of Aldermen

The city government consists of a mayor and four member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen, and other officials during the year ended June 30, 2009, are identified below. The Mayor and Board of Aldermen serve without compensation.

Name and Title	Dates of Service During the Year Ended June 30, 2009
Jo Anne Smiley, Mayor	July 2008 - June 2009
Mike Brewer, Alderman (1)	July 2008 - June 2009
Stacey Yates, Alderman	April 2009 - June 2009
Linda Harmon, Alderwoman	July 2008 - March 2009
Jennifer Dixon, Alderwoman	April 2009 - June 2009
Rusty Black, Alderman	July 2008 - March 2009
Mike Russell, Alderman (2)	July 2008 - June 2009

- (1) Dale Kley was elected to this position in April 2010.
 (2) Erin Garrison was appointed to the Board to fill the remainder of Mike Russell's term after he resigned in August 2009. Keith Smith was elected to this position in April 2010.

Other Officials

Name and Title	Dates of Service During the Year Ended June 30, 2009	Compensation Paid for the Year Ended June 30, 2009
Kelly Shultz, City Clerk (1)	September 2008 - June 2009	\$ 25,034
Jennifer Calvin, City Clerk	July 2008 - October 2008	9,745
Debra Woodall, City Collector (2) *	July 2008 - June 2009	3,348
Robert Guinness, City Attorney (3)	July 2008 - June 2009	14,509

- (1) Kelly Schultz was appointed to replace Jennifer Calvin after she resigned in September 2008. Jo Ann Myers was appointed to replace Kelly Schultz when she resigned in September 2009. Angela Creech was appointed to replace Jo Ann Myers when she resigned in January 2010.
 (2) The City Collector received a 5 percent commission on all property taxes and license fees collected and a 25 cent commission for each vehicle tax sticker collected. Ramsey Woodall was elected City Collector in April 2010.
 (3) The City Attorney is paid \$120 to \$145 per hour, depending on the services rendered.

* Elected position

In addition to the officials identified above, the city employed two full-time employees and one part-time employee on June 30, 2009.