

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

EXAMINATION REPORT
OF
STREET DEPARTMENT
TOWN OF CLARKSVILLE, INDIANA
January 1, 2007 to December 31, 2009



FILED
04/26/2011

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TOWN OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Street Commissioner	Donnie Hansford	01-01-07 to 12-31-11
Clerk-Treasurer	Gary P. Hall	01-01-04 to 12-31-11
President of the Town Council	Paul Kraft Gregory Isgrigg	01-01-07 to 12-31-08 01-01-09 to 12-31-11



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TO: THE OFFICIALS OF THE TOWN OF CLARKSVILLE

We have examined the records of the Street Department for the period from January 1, 2007 to December 31, 2009, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Examination Results and Comments. The financial transactions of this office are reflected in the Examination Report for the years 2007 and 2008, and the Annual Report for the year 2009, for the Town of Clarksville.

STATE BOARD OF ACCOUNTS

January 5, 2011

STREET DEPARTMENT
TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS

OVERVIEW OF DEPARTMENT

The Street Department oversees functions related to streets; sanitation; and garage (maintenance of Town owned vehicles). The Street Commissioner is the head of the Street Department.

SCOPE OF EXAMINATION

The Street Department was responsible for the maintenance and repair of approximately 104 Town owned vehicles during the period January 1, 2007 through December 31, 2009. The Town paid approximately \$121,000, \$99,000, and \$88,000 for vehicle supplies and parts during the years 2007, 2008, and 2009, respectively. The subsequent Examination Results and Comments identify specific expenditures that we consider to be excessive costs or unexplained variances. The excessive costs and unexplained variances were caused in part to insufficient internal accounting controls as more fully described in the Examination Result and Comment titled "Vehicle Supplies and Parts – Internal Control."

We began examining the Street Department's year 2007 financial activity in the year 2008. On April 28, 2008, we were requested by the Assistant United States Attorney of the Southern District of Indiana to delay interviewing Street Department employees until an investigation of fuel sold to various Town departments was completed. Our report on Fuel Purchases, Town of Clarksville (Report No. 37174), was completed on May 10, 2010. After May 10, 2010, we resumed our examination of the Street Department and extended our examination period to include the years 2008 and 2009. We also reviewed selected financial activity in the year 2010 based on information that came to our attention during the examination.

QUESTIONABLE PURCHASE OF ENGINE

The Street Department purchased various automotive parts from NAPA (auto parts store) per invoice number 2032017, dated December 18, 2006 (paid on February 14, 2007). A handwritten note on the invoice stated that the items listed on the invoice were "stock for all police cars." The invoice listed part number "DC87" for a 1998 Crown Victoria in the amount of \$1,369.00. The invoice did not have a description for part number "DC87." The NAPA website identified the item as an engine. No information was presented for examination identifying the Town vehicle in which the engine was installed.

The capital asset records of the Town showed the Town owned two 1998 Crown Victoria vehicles at the time of the purchase. One Crown Victoria was under the control of the Police Department and one under the control of the Building Commissioner. Our review of vehicle service records and work orders maintained by the Police Department did not show the installation of an engine in a police car. The Street Department did not maintain vehicle service records (see Examination Result and Comment titled "Automotive Supplies and Parts - Internal Controls"). We inquired of Bob Polston, former Building Commissioner, if an engine was replaced in the 1998 Crown Victoria or any of the Crown Victoria vehicles in use by the Building Commission. Bob Polston stated he did not request the Street Department to install a replacement engine in any of the Building Commission vehicles. We also inquired of Dale Abell, Assistant Chief of Police, if any police car engines were changed from December 18, 2006 to the present time for any of the Police Department's Crown Victoria vehicles. Dale Abell stated the Police Department's vehicle service records did not show the installation of any replacement engines and he did not recollect any such replacements.

The invoice was sent to the attention of David Cummings, former Street Department Head Mechanic, and was signed as received by David Cummings acknowledging receipt of the engine.

STREET DEPARTMENT
TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

We requested Town Officials to provide us information identifying the vehicle that the above engine was installed and identify the employees and/or vendor responsible for installing the engine.

In response to our inquiry, Christopher Sturgeon, Town Attorney, stated the following in a letter dated December 20, 2010:

"We have been unsuccessful in contacting Mr. David Cummings regarding the invoice for an engine for a Crown Victoria to investigate this item. We are unable to respond to your inquiry."

Donnie Hansford, Street Commissioner, signed the accounts payable voucher approving the above purchase and certifying to the receipt of the above automotive part. Donnie Hansford stated, even though he signed the accounts payable voucher, that he had delegated the responsibility of ordering and verifying the receipt of items related to vehicle maintenance to David Cummings, former Street Department Head Mechanic. David Cummings stated on November 8, 2010, that he was responsible for ordering and verifying the receipt of items related to vehicle maintenance.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We consider Donnie Hansford and David Cummings to be jointly responsible for the engine purchased on invoice number 2032017. On December 30, 2010, we requested Donnie Hansford and in a letter dated December 29, 2010, we requested David Cummings to refund \$1,369.00 to the Town of Clarksville. (See Summary, page 34)

QUESTIONABLE PURCHASE OF AUTOMOTIVE PART

We noted the purchase of part number 2358 with a description of "Non Hydraulic" on a NAPA invoice dated April 16, 2007, in the amount of \$146.23 that showed attention to "Dave Cummings." We requested a NAPA dealer to look up the part number in their catalog. The catalog described the part number as being radiator for 1990 to 1992 Dodge or Plymouth Mini Van. The invoice was signed by David Cummings, former Street Department Head Mechanic, acknowledging receipt of the part.

Based on the asset record presented for examination, a radiator for a 1990 to 1992 Dodge or Plymouth Mini Van would not be compatible with vehicle types that the Town owns.

The official response by the Street Department (see pages 28 through 33) states that Street Department officials verified with the local NAPA representative, located on Blackiston Mill Road, Clarksville, Indiana, that part number 2358 was a hydraulic part and not a radiator.

The information we obtained that part number 2358 was a radiator for a 1990 to 1992 Dodge or Plymouth Mini Van was obtained from the NAPA Website and confirmed with a representative from NAPA store located in another city. On November 23, 2010, we followed up with a representative of the local NAPA store located on Blackiston Mill Road, Clarksville, Indiana. The local representative provided us documentation confirming that part number 2358 was a radiator for a 1990 to 1992 Dodge or Plymouth Mini Van.

STREET DEPARTMENT
TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Donnie Hansford, Street Commissioner, signed the accounts payable voucher approving the above purchase and certifying to the receipt of the above automotive part. Donnie Hansford stated, even though he signed the accounts payable voucher, that he had delegated the responsibility of ordering and verifying the receipt of items related to vehicle maintenance to David Cummings, former Street Department Head Mechanic. David Cummings stated on November 8, 2010 that he was responsible for ordering and verifying the receipt of items related to vehicle maintenance during the year 2007.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

We consider Donnie Hansford and David Cummings to be jointly responsible for the radiator purchased on invoice number 2032017. On November 8, 2010, we requested Donnie Hansford and in a letter dated December 29, 2010, we requested David Cummings to refund \$146.23 to the Town of Clarksville. (See Summary, page 34)

MULTIPLE PURCHASES OF BATTERIES

The Street Department purchased 88 automotive batteries from Jubilee Oil Co., Inc. (Jubilee Oil) during the year 2007 for Street Department vehicles. Invoices for the purchase of batteries showed 26 instances of multiple batteries being purchased for the same vehicle during the year 2007. The following is a schedule of the multiple battery purchases:

Vehicle No. or Equipment Description	Number of Batteries Purchased	(1) Number of Batteries in Vehicle	Extra Batteries Purchased	Cost for one Battery	Excess Cost
31	6	4	2	\$ 98	\$ 196.00
16	2	1	1	89	89.00
38	4	1	3	89	267.00
Chipper	4	1	3	89	267.00
26	8	2	6	98	588.00
36	6	2	4	98	392.00
25	6	4	2	98	196.00
Leaf Machine	4	2	2	89	178.00
28	2	1	1	89	89.00
29	2	1	1	89	89.00
40	2	1	1	89	89.00
Totals			<u>26</u>		<u>\$ 2,440.00</u>

Note to schedule:

(1) The number shown is the number of batteries required in the vehicle.

STREET DEPARTMENT
TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Because it is normal business practice for batteries to have warranties, we consider the purchase of multiple batteries for the same vehicle in the amount of \$2,440.00 during the year 2007 to be an unexplained variance. (See "Summary of Excessive Costs and Unexplained Variances" on page 35)

PAYMENT TO R. K. SERVICE

We noted the following discrepancies regarding a payment made to R. K. Service in the amount of \$3,800.00 in the year 2007:

1. The invoice, dated November 20, 2007, showed a lump sum cost of \$3,800.00 to replace a clutch, front shafts and bearings, and a push button switch on a 4210 International tractor. There was no itemization of the cost of the individual parts or itemization of the labor costs (number of hours times hourly rate).
2. The invoice presented for examination was created by copying the vendor's name, address, and phone number from a document and overlaid onto a blank invoice.

We attempted to contact R. K. Service using the information on the invoice; however, the phone number listed on the invoice was not in service and the address listed on the invoice was a vacant lot with only a mailbox.

3. Internal Revenue Service (IRS) Form W-9 (Request for Taxpayer Identification Number and Certification), dated November 20, 2007, was on file in the Clerk-Treasurer's office. This form showed that R. K. Service was a corporation and included a taxpayer identification number (TIN). The form was signed by a Rick King certifying that the TIN was correct. The address listed on IRS Form W-9 was the same address listed on the invoice which was a vacant lot. Information reported on IRS Form W-9 was used by the Clerk-Treasurer's office to prepare IRS Form 1099-MISC used to report compensation paid to independent contractors to the IRS.

The Clerk-Treasurer received a notification from the IRS dated October 20, 2008, that the EIN reported on the IRS Form 1099 was not currently issued. The Clerk-Treasurer then sent a request for a corrected W-9 to Rick King, d/b/a "R. K. Service"; however, the Clerk-Treasurer did not receive a response.

We determined from property tax records at the Clark County Auditor's office that the vacant lot was owned by Robert K. Woodruff.

Robert K. Woodruff provided the following information on April 30, 2008, regarding the payment to R. K. Service:

1. Robert K. Woodruff submitted a quote to David Cummings, Street Department Head Mechanic, about two months before being advised by David Cummings he got the job. The work was done at his garage located at 7304 Sycamore, Charlestown, Indiana 47111. The Town had the tractor delivered to his garage by a rollback truck and had it picked up when repair was completed.

STREET DEPARTMENT
TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

2. The invoice he submitted included parts and labor; however, he did not have an itemization of those costs.
3. R. K. Service is the business name of a company that he used in the past that performed services related to towing, backhoeing, and hauling using a dump truck. He stated that R. K. Service was not incorporated.
4. In regards to the address listed on the invoice being a vacant address, Robert K. Woodruff stated that he does sometimes receive some mail at that address; however, he picked up Town check number 27034 issued for the payment of the invoice from the Town garage.
5. Robert K. Woodruff stated he had never seen the IRS Form W-9 signed by Rick King and dated November 20, 2007; he did not know who submitted this form to the Clerk-Treasurer's office; and he did not know a Rick King.

Unexplained Variance

We consider the payment to R. K. Service to be an unexplained variance based on the following:

1. The invoice did not itemize the cost of the parts and labor.
2. Information was not presented for examination that explained why IRS Form W-9 (Request for Taxpayer Identification Number and Certification) used by Clerk-Treasurer's office to report compensation paid to independent contractors to the IRS was not signed by the owner of R. K. Service. Information was also not presented for examination identifying the person who submitted IRS Form W-9 with the signature Rick King.
3. Robert K. Woodruff stated that he submitted a quote for the work approximately two months prior to doing the work. The invoice for the work was dated November 20, 2007. Robert K. Woodruff stated that the tractor was delivered and picked up later when the repair work was completed.

No documentation was presented for examination showing that the Town paid to have the above tractor towed to R. K. Service's place of business (See Examination Result and Comment titled "Towing of Tractor to Otisco."

See "Summary of Excessive Costs and Unexplained Variances" on page 35.

IC 5-11-10-1.6 states, in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim . . ."

STREET DEPARTMENT
TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Donnie Hansford, Street Commissioner, signed the accounts payable voucher approving the above purchase and certifying that the repair work was performed. Donnie Hansford stated that even though he signed the accounts payable voucher, he had delegated the responsibility of ordering and verifying the receipt of items related to vehicle maintenance to David Cummings, former Street Department Head Mechanic. David Cummings stated on November 8, 2010 that he was responsible for ordering and verifying the receipt of items related to vehicle maintenance during the year 2007.

TOWING OF TRACTOR FROM OTISCO

The Town paid Bennett's Towing \$125.00 to tow a tractor on September 29, 2007, from Otisco, Indiana, to the Clarksville Street Department. In response to our inquiry as to why a Street Department tractor would be towed from Otisco, Indiana, to the Street Department, Donnie Hansford provided us with a letter dated September 20, 2010, that stated the following:

"The tow charge is actually a round trip charge for taking the tractor to R. K. Service for repair and returning the tractor to the Street Department after it was finished. However, the address supplied on the invoice from Bennett's is actually incorrect. The actual address where the tractor was repaired is 7304 Sycamore Drive, Charlestown, IN 47111. I spoke with Linda from Bennett's and it is her belief that because the towns are so close together, the driver may have assumed it was Otisco instead of Charlestown. I have supplied a letter from Bennett's to correct this information."

A memorandum from Linda Bennett of Bennett's Towing attached to the letter and dated September 20, 2010, stated the following:

"This is to confirm, to the best of my knowledge, invoice #83756, dated 9-29-07, is for a round trip hauling a case tractor to & from 7304 Sycamore Drive, Charlestown, IN 47111 for the Street Department. The total was for \$125 for the round trip."

On October 6, 2010, we interviewed Linda Bennett of Bennett's Towing. Linda Bennett stated that the signed memorandum stating that the tractor, shown on invoice #83756 dated September 29, 2007, was delivered to 7304 Sycamore Drive, Charlestown, IN 47111 was speculation and was not based on any record or other documentation.

Unexplained Variance

In regards to the tow truck driver recording Otisco instead of the City of Charlestown on the towing invoice, Otisco is a small unincorporated community approximately eight miles northwest of the City of Charlestown and the City of Charlestown has a population of 6,000. The representation made by the Street Department that there was an error regarding the tow being shown from Otisco rather than Charlestown on invoice number 83756 was not supported by any record or other documentation based on our discussion with Linda Bennett of Bennett's Towing.

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EXAMINATION RESULTS AND COMMENTS
(Continued)

Donnie Hansford, Street Commissioner, signed the accounts payable voucher approving the towing charge from Otisco to the Street Department and certifying to the receipt of the towing service. Donnie Hansford stated that even though he signed the accounts payable voucher, he had delegated the responsibility of ordering and verifying the receipt of items related to vehicle maintenance to David Cummings, former Street Department Head Mechanic. David Cummings stated on November 8, 2010, that he was responsible for ordering and verifying the receipt of items related to vehicle maintenance during the year 2007.

PURCHASE OF LARGE TRUCK "CARRY-OUT" TIRES

The Street Department purchased 28 large truck tires (in excess of 16 inches inside wheel diameter) at a cost of \$7,968.92 from Raben Tire Co., Inc. (Raben Tire) during the year 2007. These tires were identified as "carry-out" tires on the invoices. A "carry-out" tire is a tire that is not mounted at the time of purchase. The Street Department did not own the equipment necessary to mount tires larger than 16 inches and no vendor invoices were presented for examination showing these tires were mounted by a vendor. The following is a schedule of "carry-out" tires purchased by the Street Department during the year 2007 with no evidence presented for examination that these tires were mounted:

<u>Vehicle Type</u>	<u>Tire Size</u>	<u>Quantity</u>	<u>Cost</u>
Large Truck	11R22.5 G	20	\$ 6,213.84
Large Truck	225/70R19.5	<u>8</u>	<u>1,755.08</u>
Totals		<u>28</u>	<u>\$ 7,968.92</u>

Additional Information

The following is additional information regarding the Street Department's purchase of "carry-out" tires:

1. Donnie Hansford, Street Commissioner, signs the Accounts Payable Voucher (Form 39) certifying that the attached invoices were true and correct and the materials itemized were ordered and received. On April 1, 2008, an inquiry was made with Donnie Hansford regarding why "carry-out" tires were purchased instead of having the tires mounted on the vehicle. Donnie Hansford stated that David Cummings was responsible for authorizing the purchase of tires.

The purchase orders attached to the Accounts Payable Vouchers did not identify the Street Department employee authorizing the purchase of the above tires.

2. On April 1, 2008, an inquiry was made with David Cummings, former Street Department Head Mechanic, regarding why "carry-out" tires were purchased instead of having the tires mounted on the vehicle. David Cummings stated the tires were purchased in advance (prior to mounting) to make sure the tires were available when needed. David Cummings also stated that these tires were subsequently taken to Raben Tire for mounting.

STREET DEPARTMENT
TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

In response to our inquiry about Raben Tire not charging for the mounting of these tires, David Cummings stated there were no mounting charges because Raben Tire did not always leave an invoice in the truck.

3. On April 15, 2008, we inventoried supplies at the Street Department (accompanied by David Cummings). Our inventory did not note any new large truck tires (size 11R22.5G or 225/70R19.5) being on hand.
4. Our inspection of equipment at the Street Department on April 15, 2008, showed the Street Department had a standard size tire changer. Arnie Smith, current Street Department Head Mechanic, stated that the Street Department tire changer was capable of changing tires up to 16 inches in diameter (inside wheel diameter). The above cited tire purchases were for tire sizes ranging from 19.5 inches to 22.5 inches in diameter (inside wheel diameter).
5. An invoice dated June 10, 2008, was the first invoice from Raben Tire that showed a mounting charge for a customer supplied (carry-out) tire. No invoices dated from January 1, 2007 to June 9, 2008, were presented for examination that showed Raben Tire had invoiced the Street Department for mounting tires supplied by the Street Department.
6. Invoices submitted by the Street Department to the Clerk-Treasurer's office were printed from an internet website. The accounts payable voucher was signed by Donnie Hansford certifying that the "carry-out" tires were received. However, these invoices did not contain a signature identifying the Street Department employee that accepted delivery of the tires.

On June 9, 2010, Raben Tire provided us with copies of their original work orders and invoices for the large truck tires purchased by the Street Department. Invoices provided by Raben Tire showed the following employees accepted delivery of the "carry-out" tires during the year 2007:

<u>Employee</u>	Number of Tires
Gary Adamson, Foreman	12
David Cummings, former Head Mechanic	12
Not Documented (1)	4
Total	28

Note to Schedule:

- (1) The invoice either had no employee signature or the signature of the employee accepting the tires was not legible.

STREET DEPARTMENT
TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

7. On August 24, 2010, Gary Adamson stated he picked up tires; however, he did not recall ordering tires. Gary Adamson stated he did not know why Raben Tire did not bill the Street Department for mounting "carry-out" tires.
8. We were presented with letter from Christopher Sturgeon, Town Attorney, that included a copy of minutes of a September 9, 2010 meeting between Street Department officials and Raben Tire. The minutes of the meeting states in part the following regarding the Town not being charged for the mounting of tires:

". . . John (Service Department Manager for Raben Tire Co., Inc.) explained that with high turnover rate within the company it was difficult to make sure work orders are correct. The employees are simply getting our local account mixed up with a national account, but only sometimes. The difference in these accounts is that the local accounts are charged a mount/dismount fee and a national account is not. Norm (Account Manager for Raben Tire) stated that they definitely, by accident, could have not charged us the mount/dismount fee . . ."
9. On September 15, 2010, we met with Raben Tire representatives to obtain a clarification regarding the information provided to us by Street Department officials described in item 8. Raben Tire representatives stated the following:
 - a. No matter whether an account is a national account or a local account, Raben Tire would charge a fee for the mounting of tires. The difference between a national account and a local account is that a national account is charged on an hourly basis and a local account is charged a flat fee for service performed such as a dismount/mount fee.
 - b. It is Raben Tire's policy to generate a work order for all services performed including the dismounting and mounting of tires. Due to their policies and procedures, it would be unlikely for a customer to bring in a customer supplied (carry-out) tire into their store without a work order being generated showing the mounting of tires. This would also apply to service calls where they would mount customer supplied tires (carry-out) at the Street Department garage. An invoice is generated from the work order after the work is complete.

Unexplained Variance

We consider purchase of "carry-out" tires to be an unexplained variance based on the following:

1. The invoices filed with the Clerk-Treasurer's office did not have the signatures of the employees who accepted delivery of the "carry-out" tires.
2. The Street Department does not have equipment capable of mounting the above cited "carry-out" tires and no documentation was presented for examination showing that these tires were mounted by Raben Tire as stated by Street Department officials.

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EXAMINATION RESULTS AND COMMENTS
(Continued)

3. The representation made by the Street Department related to Raben Tire not charging for the mounting of tires did not correspond with our discussion with Raben Tire representatives regarding the difference between their methods of charging fees for national accounts vs. local accounts.
4. Based on our interview with Raben Tire, it does not appear likely that their internal control system which requires work orders to be generated for every job (work orders are subsequently converted to invoices using the same reference number) would result in Raben Tire not billing the Street Department for mounting the quantity of "carry-out" tires (28) they purchased in the year 2007.

Donnie Hansford, Street Commissioner, signed the accounts payable voucher approving the purchases of the above "carry-out" tires and certifying to the receipt of the "carry-out" tires. Donnie Hansford stated that even though he signed the accounts payable voucher, he had delegated the responsibility of ordering and verifying the receipt of items related to vehicle maintenance to David Cummings, former Street Department Head Mechanic. David Cummings stated on November 8, 2010, that he was responsible for ordering and verifying the receipt of items related to vehicle maintenance during the year 2007.

See "Summary of Excessive Costs and Unexplained Variances" on page 35.

AUTOMOTIVE SUPPLIES - EXCESS PRICES PAID

The Street Department purchased automotive supplies totaling \$80,049 from Jubilee Oil Co., Inc., (Jubilee Oil) during the year 2007. Greg Isgrigg, President of the Town Council, directed all Town Departments to discontinue purchasing automotive supplies from Jubilee Oil after February 1, 2008.

We selected certain automotive supply items purchased by the Street Department from Jubilee Oil during the year 2007 and compared the prices paid by the Street Department to other vendors or with prices other Town departments paid Jubilee Oil for the same item. The comparisons are presented below:

Annual Purchases Exceeding \$5,000

	<u>Notes</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Total Cost</u>
<u>Hydraulic Oil 55 gallon drums</u>				
Jubilee Oil		20	\$ 560.00	\$ 11,200
Miller Oil	(1)	20	285.60	<u>5,712</u>
Excess Cost				<u>5,488</u>

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(Continued)

	<u>Notes</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Total Cost</u>
<u>Hydraulic Oil 5 gallon buckets</u>				
Jubilee Oil		44	58.00	2,552
NAPA	(2)	44	36.49	<u>1,606</u>
Excess Cost				<u>946</u>
Total Excess Cost				<u>\$ 6,434</u>

Notes to Schedule:

- (1) This was the price the Street Department paid for a 55 gallon drum of hydraulic Oil on March 23, 2008, after the Street Department discontinued purchasing from Jubilee Oil. The quantity is the number of units the Street Department purchased in the year 2007 from Jubilee Oil.
- (2) This was the price the Street Department paid for a 5 gallon bucket of hydraulic oil on February 21, 2008, after the Town Council discontinued purchasing from Jubilee Oil. The quantity is the number of units the Street Department purchased in the year 2007 from Jubilee Oil.

	<u>Notes</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Total Cost</u>
<u>55 Gallon Drums of 10W30 Motor Oil</u>				
Jubilee Oil		13	614	\$ 7,982
HP Oil Company	(1)	13	303	<u>3,939</u>
Excess Cost				<u>4,043</u>
<u>55 Gallon Drums of W30 Motor Oil</u>				
Jubilee Oil		13	614	7,982
Miller Oil	(2)	13	406	<u>5,278</u>
Excess Cost				<u>2,704</u>
Total Excess Cost				<u>\$ 6,747</u>

STREET DEPARTMENT
TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

Notes to Schedule:

- (1) The quantity is the number of units the Street Department purchased in the year 2007 from Jubilee Oil. This was the price that the Parks Department paid for 10W30 Motor Oil in the year 2007.
- (2) The quantity is the number of units the Street Department purchased in the year 2007 from Jubilee Oil. This was the price the Street Department paid Miller Oil for a 55 gallon drum purchased March 28, 2008, after the Town Council discontinued purchasing from Jubilee Oil.

Annual Purchases Not Exceeding \$5,000

The following items purchased from Jubilee Oil were excessive compared to the prices paid by other Town Departments or by the Street Department from another vendor for the same items during the year 2007:

	<u>Notes</u>	<u>Quantity</u>	<u>Unit Price</u>	<u>Total Cost</u>
<u>1200 amp Battery Size G31</u>				
Street Department from Jubilee Oil		38	\$ 96.00	\$ 3,648
Fire Department from Jubilee Oil	(1) (3)	38	68.00	<u>2,584</u>
Excess Cost				<u>1,064</u>
<u>875 amp Battery</u>				
Street Department from Jubilee Oil		46	89.00	4,094
Street Department from NAPA	(2) (3)	46	71.71	<u>3,299</u>
Excess Cost				<u>795</u>
Total Excess Cost				<u>\$ 1,859</u>

Notes to Schedule:

- (1) This was the price that the Fire Department paid to Jubilee Oil for a 1200 amp Battery Size G31 in the year 2007. The invoice for the Fire Department batteries purchased from Jubilee Oil showed a warranty period of 12 months.
- (2) Price paid by Street Department for battery purchased from NAPA in the year 2007 for an "84 month" battery.
- (3) The quantity is the number of units the Street Department purchased in the year 2007 from Jubilee Oil Co.

STREET DEPARTMENT
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EXAMINATION RESULTS AND COMMENTS
(Continued)

Other Price Comparisons

The following comparisons are one time instances showing the Street Department paid Jubilee Oil at least double the prices the Fire Department paid Jubilee Oil for the same items:

<u>Description</u>	<u>Unit</u>	<u>Department</u>		<u>% Variance</u>
		<u>Price Paid by Street</u>	<u>Price Paid By Fire</u>	
Diesel Fuel Conditioner (Note 1)	Case	\$ 168.00	\$ 84.00	100%
Dexron III Automatic Transmission Fluid	Case	85.00	39.00	118%

Note to Schedule:

- (1) The Street Department purchased four cases on January 3, 2007 at \$168 per case. The price paid by the Fire Department was the price paid on January 17, 2007 for two cases.

Town Purchasing Policy

The Town's purchasing policy (Ordinance No. 98-G-02 and Ordinance No. 98-G-06) authorizes the purchasing agents (Street Commissioner for the Street Department) to purchase supplies with an estimated cost of up to \$5,000 on the open market without inviting or receiving quotes. The above policy implies that quotes are required for purchases costing \$5,000 or more. However, no information was presented for examination documenting the procedures that purchasing agents are required to follow for purchases over \$5,000.

IC 5-22-8-2 states:

"(a) This section applies only if the purchasing agent expects the purchase to be less than fifty thousand dollars (\$50,000).

(b) A purchasing agent may make a purchase under small purchase policies established by the purchasing agency or under rules adopted by the governmental body."

Purchasing Procedures

Donnie Hansford, Street Commissioner, stated that he delegated the responsibility for purchasing/ordering items related to vehicle maintenance during the year 2007 to David Cummings, former Street Department Head Mechanic. David Cummings stated on November 8, 2010, that he was responsible for purchasing/ordering items related to vehicle maintenance. See Examination Result and Comment titled "No Ethics Policy."

Summary of Excessive Costs

The following is a summary of excessive costs paid for hydraulic oil, motor oil, and batteries during the year 2007:

STREET DEPARTMENT
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EXAMINATION RESULTS AND COMMENTS
(Continued)

<u>Automotive Supply</u>	<u>Excessive Cost</u>
Hydraulic Oil	\$ 6,434
Motor Oil	6,747
Batteries	<u>1,859</u>
 Total Excessive Costs	 <u>\$ 15,040</u>

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

(See "Summary of Excessive Costs and Unexplained Variances" on page 35)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

AUTOMOTIVE SUPPLIES – QUANTITY COMPARISON

The Street Department purchased the majority of their automotive supplies from Jubilee Oil Co., Inc. (Jubilee Oil) during the year 2007. Raymond Richert, Town Council member and liaison to the Street Department, requested the Street Department to discontinue purchasing automotive supplies from Jubilee Oil after February 1, 2008.

We selected the following automotive supplies and compared quantities purchased in the year 2007 when the Town purchased from Jubilee Oil and in the year 2008 when these supplies were purchased from other vendors. Our comparison is presented in the following schedule:

<u>Supply Item</u>	<u>Unit Measure</u>	<u>Notes</u>	<u>Quantity</u>			%
			<u>Year 2007</u>	<u>Year 2008</u>	<u>Variance</u>	<u>Decrease from Year 2008</u>
10W30 Motor Oil	55 gal drum	(1)	16.6	8.6	(8.0)	(93)
W30 Motor Oil	55 gal drum		13.0	5.0	(8.0)	(160)
Hydraulic Oil	55 gal drum	(2)	<u>24.0</u>	<u>10.4</u>	<u>(13.6)</u>	<u>(131)</u>
 Totals			 <u>53.6</u>	 <u>24.0</u>	 <u>(29.6)</u>	 <u>(123)</u>

Notes to Schedule:

- (1) The year 2007 purchases also includes the purchase of 66 cases (12 quarts per case) converted to 55 gallon drum unit measure.
- (2) The year 2007 purchases also include the purchase of 44 (quantity) five gallon buckets converted to a 55 gallon drum unit measure.

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EXAMINATION RESULTS AND COMMENTS
(Continued)

Purchasing Procedures

Donnie Hansford, Street Commissioner, stated that he delegated the responsibility for purchasing/ordering items related to vehicle maintenance during the year 2007 to David Cummings, former Street Department Head Mechanic. David Cummings stated on November 8, 2010, that he was responsible for purchasing/ordering items related to vehicle maintenance. See Examination Result and Comment titled "No Ethics Policy."

Excessive Costs based on Quantities Purchased

Our review of the Town's capital asset ledger showed the Town owned approximately 104 vehicles during both the years 2007 and 2008. The quantities purchased in the year 2007 were excessive compared to the amounts paid in the year 2008 as shown in the following schedule:

<u>Automotive Supply</u>	<u>Unexplained Excess Quantities</u>	<u>Price</u>	<u>Unexplained Excess Costs</u>
10W30 Motor Oil	8.0	\$ 614	\$ 4,912
W30 Motor Oil	8.0	614	4,912
Hydraulic Oil	<u>13.6</u>	560	<u>7,616</u>
 Total Excessive Costs	 <u>29.6</u>		 <u>\$ 17,440</u>

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

(See "Summary of Excessive Costs and Unexplained Variances" on page 35)

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or non-feasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ETHICS POLICY

Donnie Hansford, Street Commissioner, stated that he delegated the responsibility for purchasing/ordering items related to vehicle maintenance during the year 2007 to David Cummings, former Street Department Head Mechanic. David Cummings stated on November 8, 2010, that he was responsible for purchasing/ordering items related to vehicle maintenance on behalf of the Street Department. David Cummings was responsible for ordering automotive parts and supplies from Jubilee Oil Co., Inc. (Jubilee Oil) during the year 2007. The Street Department purchased automotive parts and supplies totaling \$80,049 from Jubilee Oil.

David Cummings also stated on November 8, 2010, that he had a business relationship with Gary V. Crowe, Sr., owner of Jubilee Oil that began sometime in the year 2006 and continued in the year 2007. David Cummings stated that Gary V. Crowe, Sr., would loan him money to purchase used cars that he

STREET DEPARTMENT
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(Continued)

would repair. David Cummings stated he would split the profit on the sale of the repaired cars with Gary V. Crowe, Sr. David Cummings stated he did not report his business relationship with the owner of Jubilee Oil to the Town Council. David Cummings did not present for examination information showing the extent of his business relationship with Gary V. Crowe, Sr., owner of Jubilee Oil.

The Town did not have an ethics policy or ordinance in effect during the year 2007 requiring purchasing agents or employees with final purchasing authority to submit a financial disclosure statement disclosing information such as:

1. Gifts from vendors and business relationships with vendors from whom the employee is purchasing from on behalf of the Town.
2. Other jobs or businesses the employee may have.

The Town adopted an updated personnel policy in January of 2009 that included a section titled "Ethical Workplace" that has provisions requiring an employee to make a full disclosure in writing to the Director of Human Resources of any situation that may involve a conflict of interest between their personal interest and the interest of the Town.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAINTING AND VEHICLE BODY REPAIR

The Town paid a total of \$12,450 to Brian Booth during the years 2007 through 2009 for painting and body repair on Town vehicles. We noted the following regarding the payments made to Brian Booth:

1. A review of canceled checks to Brian Booth showed five instances that the checks had second endorsements by another person or company. In one instance, the check had a second endorsement of a Town employee.

The Clerk-Treasurer's office stated there were instances when the Street Department would request vendor checks be returned to the Street Department rather than having the checks mailed to the vendor by the Clerk-Treasurer's office.

The returning of vendor checks to the Street Department reduces segregation of duties of the purchasing process. Segregation of duties should be a significant consideration in establishing an internal control system to help reduce the probability of fraud.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

STREET DEPARTMENT
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EXAMINATION RESULTS AND COMMENTS
(Continued)

2. The invoices did not itemize the cost of materials.

IC 5-11-10-1.6 states, in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim . . ."

AUTOMOTIVE SUPPLIES AND PARTS - INTERNAL CONTROL

We noted the following deficiencies regarding the processing of payments for automotive supplies and parts by the Street Department:

1. The Town has not established an internal service fund that would allocate repair and maintenance costs of Town owned vehicles to the applicable department. These costs are paid from the Street Department's General Fund budget rather than being billed to the applicable Town department. As a result, costs applicable to other departments are not being charged to the applicable Town department's budget.

Internal Service Funds are used to account for the financing of goods or services provided by one fund, department, or agency to other funds, departments, or agencies of the financial reporting entity on a cost reimbursement basis. The use of an internal service fund to allocate vehicle maintenance and repair costs to the appropriate Town departments could provide better accountability over the purchase and use of automotive parts and supplies.

2. Purchase Orders (Form 98) attached to the Accounts Payable Vouchers (Form 39) did not identify the employee authorizing the purchase of automotive supplies and parts. Donnie Hansford, Street Department Commissioner, signed all accounts payable vouchers certifying to the ordering of automotive supplies and parts. Donnie Hansford stated that the Head Mechanic was responsible for authorizing the purchase of automotive supplies and parts.

An internal control system should identify the official or person authorizing the purchase of supplies or services. Proper identification of the person authorizing the purchase is necessary in the event questions arise about the products ordered or invoiced and to provide verification that the person who placed the order has been authorized by the Town to incur liabilities on behalf of the Town. The Street Commissioner is the purchasing agent for the Street Department and responsible for authorizing all purchases for the Street Department including auto supplies and parts. If the practice of allowing the Head Mechanic to authorize the purchase of auto supplies and parts on behalf of the garage is to continue, we recommend that the Town Council consider designating the Head Mechanic as the purchasing agent for the garage and sign purchase orders and certify the accounts payable voucher for garage purchases.

STREET DEPARTMENT
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EXAMINATION RESULTS AND COMMENTS
(Continued)

3. Donnie Hansford signs all accounts payable vouchers certifying that all automotive supplies and parts are received. Donnie Hansford did not personally verify the receipt of automotive supplies and parts and relies on signatures of employees on invoices to insure the receipt of items purchased. As discussed in previous Examination Results and Comments, disbursement documentation attached to the accounts payable vouchers did not always identify the individual Street Department employee who actually verified the receipt of items ordered.

An internal control system should identify the official or person having knowledge that supplies or services have been received. Failure to have persons with knowledge of the actual receipt of goods or services to review the items invoiced could result in the Town paying for goods or services they have not received. The Street Commissioner certifies to the receipt of supplies or services received on the Accounts Payable Voucher (Form 39). If the Street Commissioner's certification is based on others verifying the receipt of supplies or services ordered, then supporting documentation, such as invoices or purchase orders, should be signed by the employee verifying the receipt of supplies or services ordered.

4. The Street Department does not maintain vehicle service records recording maintenance and repair work performed on individual Town vehicles. The Street Department also did not maintain a perpetual inventory record for high dollar supply items, such as, motor oil and hydraulic oil, etc.

The use of vehicle service records could be used to help determine the reasonableness of vehicle supply purchases. Perpetual inventory records, maintained on high dollar inventory items, should be compared to actual physical inventory on a periodic basis and any significant variances should be investigated.

5. The Street Commissioner is the purchasing agent for the Street Department. The Town Council has a small purchase policy for supply items costing \$5,000 or more (items costing less than \$5,000 may be purchased on the open market without solicitation of quotes). However, the policy does not state how many quotes are to be obtained by the purchasing agent; whether the quotes are to be written or verbal; or whether the quotes are to be submitted to the Clerk-Treasurer's office for monitoring purposes.

The policy also does not provide any guidance on whether any individual supply items should be combined together into broader supply categories for the purpose of obtaining quotes. For example, the Street Department purchased large quantities 10W30 and W30 motor oil and 1200 amp and 875 amp batteries.

Purchasing policies should provide sufficient guidance as to the number of quotes required, the manner that quotes should be obtained, and be subject to monitoring for compliance in order to help avoid paying unreasonable or excessive costs.

6. The Town does not have a local policy requiring the department head to obtain cost quotes for service work, such as, vehicle body repair and painting.

The obtaining of cost quotes for service work, such as, vehicle body repair and painting is a common business practice used to avoid paying unreasonable or excessive costs.

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TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

7. We noted instances of checks made out to Street Department vendors that contained second endorsements of Street Department employees. The Clerk-Treasurer's office stated there were instances when the Street Department would request vendor checks be returned to the Street Department rather than be mailed to the vendor by the Clerk-Treasurer's office.

The returning of vendor checks to the Street Department reduces segregation of duties of the purchasing process. Segregation of duties should be a significant consideration in establishing an internal control system to help reduce the probability of fraud.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PURCHASE OF ROAD SALT

No bids or quotes were presented for examination for the purchase of road salt in the years 2007 and 2008 as described below:

1. The Street Department purchased 600 tons of road salt on April 5, 2007, from Morton Salt at the rate of \$35.26 per ton at a total cost of \$21,156.00.

IC 5-22-8-2 (effective prior to July 1, 2007) states:

"(a) This section applies only if the purchasing agent expects the purchase to be less than twenty-five thousand dollars (\$25,000).

(b) A purchasing agent may make a purchase under small purchase policies established by the purchasing agency or under rules adopted by the governmental body."

Town of Clarksville Ordinance No. 98-G-02 allows purchasing agents to purchase on the open market without inviting quotes or bids only if the purchase of supplies cost \$5,000 or less.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

2. The Street Department purchased 700 tons of road salt on December 4, 2008 from Jeffersonville River Terminal at the rate of \$129.00 per ton for a total cost of \$90,300 on December 4, 2008.

For supplies costing \$50,000 to \$150,000, IC 5-22-7-5(a) states: "The purchasing agency shall give notice of the invitation for bids in a manner required by IC 5-3-1."

In lieu of advertising for bids, a town may solicit written quotes by following IC 5-22-8-3.

STREET DEPARTMENT
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EXAMINATION RESULTS AND COMMENTS
(Continued)

IC 5-22-8-3 (effective July 1, 2007) states in part:

"(a) This section applies only if the purchasing agent expects the purchase to be:

- (1) at least fifty thousand dollars (\$50,000); and
- (2) not more than one hundred fifty thousand dollars (\$150,000).

(b) A purchasing agent may purchase supplies under this section by inviting quotes from at least three (3) persons known to deal in the lines or classes of supplies to be purchased.

(c) The purchasing agent shall mail an invitation to quote to the persons described in subsection (b) at least seven (7) days before the time fixed for receiving quotes."

Cost Comparison

The following is a comparison of the cost paid by the Town for road salt with the amount paid by the government of Clark County for the year 2008:

	<u>Cost Per Ton</u>	(1) <u>Number of Tons</u>	<u>Total Cost</u>
Town of Clarksville	129.00	700.00	\$ 90,300.00
Clark County	55.00	700.00	<u>38,500.00</u>
 Excessive Cost			 <u><u>\$ 51,800.00</u></u>

Note to Schedule:

- (1) The number of tons represents the amount purchased by the Town in the year 2008.

For the year 2009, the Town participated in a quantity purchase agreement for road salt through the State of Indiana at a cost of \$60 per ton from North American Salt Company.

Every effort should be made by the governmental unit to avoid unreasonable or excessive costs. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OVERPAYMENT ON PAVING PROJECTS

The Town paid Gohmann Asphalt and Construction, Inc., \$273,145 for various paving projects in the year 2009. We noted the following regarding the bidding process:

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(Continued)

1. The notice to bidders states in part: "The bids shall be unit price for all work called for in the specifications . . ." However, individual paving projects were not identified in the specifications or bids.

IC 36-1-12-3(b) states: "When the project involves the rental of equipment with an operator furnished by the owner, or the installation or application of materials by the supplier of the materials, the project is considered to be a public work project and subject to this chapter. However, an annual contract may be awarded for equipment rental and materials to be installed or applied during a calendar or fiscal year if the proposed project or projects are described in the bid specifications.

2. The bid received from Gohmann Asphalt and Construction, Inc. provided for various rates charged per ton depending upon the amount of hot mixed asphalt (HMA) applied. The rates charged per square yard for milling varied depending upon the amount of milling performed. We noted the following inconsistencies regarding the method Gohmann Asphalt and Construction, Inc. charged the Town for milling:

- a. An invoice, dated August 12, 2009, showed billing for seven street projects. The HMA applied was billed at the lowest bid rate per ton as if the seven street projects were part of one project. The milling was also billed at the lowest bid rate of \$5.45 per square yard (cost for milling over 1,000 square yards) on a total of 6,111.84 square yards as if the seven street projects were part of one project.

- b. A second invoice, dated December 4, 2009, showed the HMA applied was billed at the lowest bid rate per ton as if the various street projects were part of one project like the August 12, 2009 invoice.

However, the milling was charged by individual street project rather than a continuation of one single project as shown on the invoice dated August 12, 2009. The milling of 847.12 square yards was billed at the higher bid rate of \$9.50 per square yard (cost for milling between 101 and 1,000 square yards) rather than \$5.45 per square yard for milling in excess of 1,000 square yards as it had been on the invoice dated August 12, 2009.

Tom Clevidence, Town Engineer, stated the bid rates were to be applied to the quantities for each individual street project and were not for the quantities purchased for the entire year.

The specifications presented for examination did not state that the bid rates were for individual street projects; the specifications did not identify individual street projects; and the billing for HMA tonnage was not billed based on individual projects. Based on documentation presented for examination, the December 4, 2009 invoice should have billed 847.12 square yards of milling at the lower rate of \$5.45 per ton instead of \$9.50 per ton resulting in an over payment of \$3,430.84.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

(See "Summary of Excessive Costs and Unexplained Variances" on page 35)

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TOWN OF CLARKSVILLE
EXAMINATION RESULTS AND COMMENTS
(Continued)

TEMPORARY PERSONAL SERVICES PAYMENTS

The Street Department hires temporary employees through an arrangement the Town Council has with Crown Services, Inc. During the year 2010, the Town paid Crown Services, Inc., for John Derby at the rate of \$12.15 per hour. Town records showed John Derby worked 15 hours every Friday and 15 hours every Saturday from March 19, 2010 to July 24, 2010. Donnie Hansford, Street Commissioner, stated that John Derby was responsible for cleaning the Street Department's garage and the Storm Water Utility office. Donnie Hansford stated that prior to John Derby being hired; a verbal agreement was made with John Derby regarding the amount of compensation John Derby would be paid for cleaning the two offices. Donnie Hansford stated that the number of hours submitted to Crown Services was determined by dividing the compensation agreed to by the rate of pay to arrive at the hours submitted to Crown Services, Inc.

John Derby stated that he worked approximately the number of hours recorded on the time sheets; however, there were instances when he would work hours on days other than the Friday or Saturday recorded on the timesheets.

Section 4.02 of the "Employee Handbook" for the Town of Clarksville (January 2009) states in part the following:

". . . employees must accurately record the time they begin and end their work . . . It is the employee's responsibility to sign his or her time record to certify the accuracy of all time recorded. The timekeeper for the department will review and then initial the time record before submitting it for payroll processing . . ."

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The arrangement for cleaning the two Town offices, as described by Donnie Hansford, was a contractual arrangement rather than an employer/employee relationship.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contracts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

EMPLOYEE TIME RECORDS

A review of the Street Department employee time records for the year 2009 showed that the total hours worked is recorded on a payroll spreadsheet listing the number of hours each employee works each day. The Street Department also uses a separate overtime log to record overtime hours. Our review of the payroll spreadsheet and overtime log noted the following:

1. The payroll spreadsheet for regular hours worked was not supported by time records signed by the individual employee showing the beginning and ending time worked. The employee time record was not initialed by the timekeeper for the department.
2. The overtime log showed the number of hours each employee worked and the specific hours worked. There were instances when the overtime hours were initialed by the employee and there were instances when the overtime hours were not initialed by the employee. The overtime log was not initialed by the timekeeper for the department.

STREET DEPARTMENT
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EXAMINATION RESULTS AND COMMENTS
(Continued)

Section 4.02 of the "Employee Handbook" for the Town of Clarksville (January 2009) states in part the following:

". . . employees must accurately record the time they begin and end their work . . . It is the employee's responsibility to sign his or her time record to certify the accuracy of all time recorded. The timekeeper for the department will review and then initial the time record before submitting it for payroll processing . . ."

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CRIME PROTECTION INSURANCE POLICY

The following is a description of the crime protection insurance covering Town employees:

Insurer	St. Paul Fire and Marine Insurance Company
Policy Number:	GP09313440
Period of Coverage:	December 1, 2005 to December 31, 2007
Amount:	\$ 100,000 per loss
Deductible	\$ 1,000 per loss

STREET DEPARTMENT
TOWN OF CLARKSVILLE
EXIT CONFERENCE

The contents of this report were discussed on November 8, 2010, with Donnie Hansford, Street Commissioner; and on January 5, 2011, with Paul Kraft, Vice President of the Town Council; Gary P. Hall, Clerk-Treasurer; Raymond Richert, Council member; Bob Popp, Council member; and Donald Tetley, Council member. The official response has been made a part of this report and may be found on pages 28 to 33.

The contents of this report were also discussed with David Cummings, former Street Department Head Mechanic, on November 8, 2010, and in a letter dated December 29, 2010. David Cummings had not responded to the contents of the report as of February 18, 2011.

The Law Office of
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Licensed in Indiana and Kentucky

February 18, 2011

Ron Robertson
State Board of Accounts
348 Muriel Drive
Scottsburg, Indiana 47170

RE: Report on Clarksville Street Department, 2007, 2008, 2009

Dear Mr. Robertson:

I have had the opportunity to review and investigate the State Board of Account's report of the Clarksville Street Department for the years 2007, 2008, and 2009 and respond as follows:

Questionable Purchase of Engine

We have not been able to evaluate this matter. I note that former Street Department employee David Cummings was interviewed by the examiner on November 8, 2010, but the report does not state whether this matter was discussed with him or his response. Mr. Cummings has not responded to our attempts to contact him for an explanation.

Questionable Purchase of Auto Parts

The issue seems to involve a radiator purportedly purchased by the Street Department for a 1990-1992 Dodge Caravan, a vehicle not owned by the Town. Again, David Cummings was interviewed by the examiner on November 8, 2010, yet the report does not say whether he was asked about this purchase or what was his response. Mr. Cummings should be in the best position to answer questions about this specific matter.

I also contacted the store manager at the NAPA store on Blackiston Mill Road about this item; he explained that the part number listed would not necessarily have been for a radiator and that the ticket shows it was for a hydraulic part. The Board of Accounts' examiner was subsequently given a different answer. We believe NAPA's conflicting answers mitigates against a finding that something wrong happened and that there is no unexplained variance.

Multiple Purchases of Batteries

The report claims extra batteries being purchased for the same pieces of equipment as an "unexplained variance." Extra batteries were needed for equipment. Batteries were sometimes stolen from the Street Department's lot at 107 Roy Cole Drive (See statements of Arnie Smith, Russell Foushee and Ted Shelton, attached). At other times, the 2-way radios would be left on, draining the batteries (See statement of Kent Marlin, attached). Other batteries would simply die from sitting idle for several weeks or months. (See statement of Arnie Smith). The Street Department has tried to reduce the loss of batteries by configuring the 2-way radios to go off when the ignition is turned off (See statement of Kent Marlin).

Payment to R.K. Service

The main issue here appears to be the lack of an invoice itemized for the *costs* of parts and labor. The Town agrees invoices and claims should itemize the costs of parts and labor and will require them for future payments.

On the other hand, there is no evidence or claim that the Street Department paid for parts that were not delivered or labor that was not performed. To the contrary, Mr. Woodruff, the owner of R.K. Service, verified that the work was performed on the tractor and that he was paid. He recalled the conversation he had with David Cummings of the Street Department, providing a quote for the service. He also remembered the Town having the tractor towed to and from his address on Sycamore Drive, Charlestown, Indiana and an invoice being submitted by him, identifying parts and labor (although without the costs of each). He also verified that he owned the property at the address on the invoice and received mail there. Further, Street Department employee Gary Adamson verified that the tractor was towed to Mr. Woodruff's by Bennett's; he backed the tractor off of the tow bed. (See statement of Gary Adamson).

The Town cannot explain the matter of the W-9, but the Clerk-Treasurer's Office routinely relies on the information provided on W-9's. The Clerk-Treasurer's office issued the check based on the information it had and only learned later from the IRS that the number was incorrect.

It is important to note that whatever issues there may have been with the W-9, Mr. Woodruff confirms that he did the work and was paid for his work. Instead of being an "unexplained variance," the Town has offered a specific explanation verified by the facts.

Towing of Tractor to Otisco

The issue here is apparently one of confusion on someone's part, but when read in conjunction with the section of the report regarding the service on the tractor by Mr. Woodruff, it is clear that this towing charge was for transporting the tractor from the Street Department to Mr. Woodruff's garage in Charlestown. Mr. Woodruff stated that "the Town had the tractor delivered to his garage by a rollback truck and had it picked up when the repair was completed." Street Department employee Gary Adamson verified that he drove the tractor off of Bennett's tow truck when it was delivered to Mr. Woodruff's (See statement of Gary Adamson, attached).

Also, the tow charge was dated September 29, 2007. Mr. Woodruff stated that he gave a "quote for the work approximately two months prior to doing the work." If Mr. Woodruff gave his quote two months before doing the work, he could have given it in July, 2007, done the work in September, 2007, and gotten paid in November, 2007. Payment was withheld to see if the repairs were going to work.

These two matters obviously coincide, complement and explain each other. There is no "unexplained variance."

Purchase of Large Truck "Carry-Out: Tires

The Board of Accounts investigation claims that a number of tires were purchased as "carry-out" at Raben without any evidence that they had been mounted on Street Department vehicles. This, too, involves some confusion arising from the internal workings of Raben Tires. The Street Department provided a memorandum from a meeting with Raben management regarding charges and lack of charges for mounting tires. The memorandum explained why the Street Department was sometimes charged and sometimes not charged, attributing the inconsistency to Raben's internal workings. *This memorandum was signed by a representative of Raben's.* (See attached).

The report states that the examiner discussed the memorandum with "Raben Tire representatives" about the Street Department's information and was given other information. The conflicting information from Raben is further demonstration that the explanation lies within Raben's internal workings and does not lessen the Street Department's written explanation.

Further, despite Raben's claims, it continues to mount tires without charging. Attached is an invoice from January 7, 2011 from Raben Tires regarding two tires. One tire was repaired, and one was replaced. Raben also sold two rims to the Street Department for those tires at the same time and mounted the tires on the rims. *Note that the invoice does not include a charge for mounting the tires on the rims.* (See statement of Gary Adamson).

Despite Raben's claims, their procedures are inconsistent, and it is entirely possible that the carry out tires were mounted on Street Department vehicles with no record of it by Raben. Any variance is explained by Raben's inconsistent procedures, and the Town disputes the claim of an unexplained variance.

Automotive Supplies—Excess Prices Paid

Jubilee Oil had been the Town's supplier for many years. The Town agrees with the recommendations for better internal controls over the purchase of supplies and parts and has implemented new policies and procedures. (See Statement of Stacy Loyall).

Automotive Supplies—Quantity Comparison

The large quantities of hydraulic and motor oil can be explained by leakage from trucks and other equipment. The many hydraulic systems or a line would "blow" on a truck, causing the oil to spew out until exhausted. This required the line to be fixed and the oil replaced. (See statements of Street Department employees Arnie Smith, Ben Lilly, Daniel Klingsmith, Russell

Foushee, retired employee Ted Shelton, and Stacy Loyall). Sometimes, regular motor oil was also used to replace hydraulic fluid if needed.

The Town has since disposed of some of the older equipment, which reduced the amount of loss. (See attached list of disposed of equipment and fixed asset disposal notifications; see statement of Stacy Loyall). The Street Department has also reduced its need for oil by instituting better maintenance procedures. Previously, leaking trucks were allowed to sit on the lot, leaking oil and fluids onto the ground and requiring leaked oil to be replaced. The Street Department has embarked on more aggressive servicing and repair of vehicles; in 2007, , going from 14 in 2007 such repairs or purchases were made; in 2008, it was 15; in 2009, it was 24, and in 2010, there were 22 such repairs or purchases. (See statement of Stacy Loyall). Also, large trucks are no longer serviced on site, and a specific employee is now tasked with maintenance of the yard to control leaks and keep the yard cleaner from oil. (See statements of Kent Marlin and Tom Clevidence).

The Town agrees with the recommendations for better internal controls over the purchase of supplies and parts and has instituted new policies and procedures towards this. (See statement of Stacy Loyall).

Ethics Policy

The Town's ethics policy in effect in 2007 stated as follows:

In no case shall additional employment be permitted to interfere with duties either in terms of conflict of interest or causing the employee to be physically unable to carry out the job.

The Town believes that this policy covered former Street Department employee David Cummings' outside relationship with Gary Crowe, Sr. That outside relationship *was prohibited* under the policy in effect in 2007.

The report's emphasis is that the policy did not require disclosure of the relationship to the Town. The Town revised its policy in January, 2009:

2.01 Ethical Workplace

Town employees will maintain the highest ethical standards in the conduct of Town affairs. Intent of this policy is that each employee will conduct the Town's business with integrity and comply with all applicable laws in a manner that excludes considerations of personal advantage or gain.

The following is a summary of the Town of Clarksville's policy with respect to potential conflicts of interest and certain other matters.

Employees should avoid any situation that involves or may involve a conflict between their personal interest and the interest of the Town of Clarksville. As in all other facets of their duties, employees dealing with customers, suppliers, contractors, competitors or any person doing or seeking to do business with the

Town are to act in the best interest of the Town. Each employee shall make prompt and full disclosure in writing to the Director of Human Resources of any potential situation that may involve a conflict of interest. Such conflicts include:

1. Ownership by employee or by a member of their family of a significant interest in any outside enterprise which does or seeks to do business with the Town.
2. Serving as a director, officer, partner, consultant, or in a managerial or technical capacity with an outside enterprise which does or is seeking to do business with the Town.
3. Any other arrangements or circumstances, including family or other personal relationships, which might dissuade the employee from acting in the best interest of the Town of Clarksville.

Any violation of this policy will subject the employee to disciplinary action or immediate discharge. Any Town employee having knowledge of any violation of the policy shall promptly report such violation to the Director of Human Resources. When questions arise concerning any aspect of this policy, contact the Director of Human Resources.

The new policy now requires disclosure of actual or potential conflicts of interest.

Painting and Vehicle Body Repair

I contacted Brian Booth about the second endorsements. He said that he requested that a Town employee cash the check for Mr. Booth at the employee's bank. Mr. Booth verified that this was merely a favor and that he received all of the money.

While commendable to help Mr. Booth, the Town agrees that this may give the appearance that something inappropriate is happening and will not assist in this way again. The Town also agrees that checks will not be sent to the Street Department but will be mailed out to the vendor by the Clerk-Treasurer's Office or kept by the Clerk-Treasurer's Office to be picked up by the vendor.

Purchase of Road Salt

There are two issues here: the purchase of road salt without obtaining bids or quotes and the prices paid for the salt that was purchased. As to the first issue, the Town agrees that the purchases must be made as required by statute.

An attempt was made to get a quote from Cargill in October, 2007, but it declined to give a quote. (See attached letter). Morton, which had supplied the Street Department in 2006, also declined and told the Street Department that it would not renew its contract with the Town. The price of road salt skyrocketed in 2008 because of shortages (see attached news articles). In November, the Street Department contacted INDOT about the situation and was told no salt was available and that the going rate was \$125.00 per ton. (See attached statement). The Street

Department was faced with an emergency situation and had to make its purchase however it could to ensure an adequate supply of road salt for the 2008-2009 Winter. This resulted in the purchase in December, 2008. The Street Department was in a position to either pay what it had to for salt or run the risk of being without for the winter. The citizens of Clarksville would rather have the salt available.

The report compared the Street Department's road salt purchase to that of Clark County. Clark County was able to purchase its supply at a lower price because it had a contract to purchase the salt at that lower price. On the other hand, another community that found itself in the same situation as Clarksville was Sellersburg, Indiana. I contacted the Clerk-Treasurer of Sellersburg, who advised that Sellersburg paid \$145.00 per ton of salt plus a \$75.00 delivery fee in February, 2008.

The Town agrees that the better procedure would have been to explain the situation to the Council, have it declare an emergency and make the necessary purchases. The Street Department now obtains its road salt through the State of Indiana's system, reducing the cost and assuring an adequate supply.

Overpayment on Paving Projects

The report questions the amount of payment based on unclear contract language. A difference of contract interpretation is at the heart of the matter. The report makes the assumption that the quantities are cumulative over the year, so that, once a threshold is reached during the year, then the applicable lower rate should apply. There is no language requiring the contractor to bill this way. It is a difference in interpretation.

It should be noted that Gohmann's billing did *save* the Town \$306.15 on the Salt Barn project. Gohmann could have billed that project at \$52.15 per ton instead of \$47.10, resulting in an additional \$306.15 for the Salt Barn project.

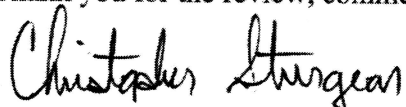
Temporary Personal Services Payments

The Town agrees with the recommendations that better records and a written contract are required. A contract with Crown Services is now in place.

Employee Time Records

The employee handbook specifically places the responsibility for signing the timesheet on the employee to certify its accuracy. The Town agrees that the better practice is for the employee to sign his or her time records before submittal and that better records of overtime should be kept.

Thank you for the review, comments, and suggestions.



Christopher Sturgeon
Clarksville Town Attorney

STREET DEPARTMENT
TOWN OF CLARKSVILLE
SUMMARY

	<u>Charges</u>	<u>Credits</u>	<u>Balance Due</u>
Donnie Hansford, Street Commissioner/ David Cummings, former Street Department Head Mechanic:			
Questionable Purchase of Engine, pages 4 and 5	\$ 1,369.00	\$	\$
Questionable Purchase of Automotive Part, pages 5 and 6	146.23		
Reimbursement made by Donnie Hansford on April 26, 2011, Receipt No. 2739	<u> </u>	1,515.23	<u>-</u>
Totals	<u>\$ 1,515.23</u>	<u>\$ 1,515.23</u>	<u>\$ -</u>

STREET DEPARTMENT
TOWN OF CLARKSVILLE
SUMMARY OF EXCESSIVE COSTS AND UNEXPLAINED VARIANCES

	<u>Amount</u>
Multiple Purchases of Batteries, page 6 and 7	\$ 2,440.00
Payment to R. K. Service, pages 7 through 9	3,800.00
Towing of Tractor From Otisco, pages 9 and 10	125.00
Purchase of Large Truck "Carry-Out" Tires, pages 10 through 13	7,968.92
Automotive Supplies - Excess Prices Paid, page 13 through 17	15,040.00
Automotive Supplies - Quantity Comparison, pages 17 and 18	17,440.00
Overpayment on Paving Projects, pages 23 and 24	<u>3,430.84</u>
 Total	 <u><u>\$ 50,244.76</u></u>