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Mayor

26 Member  
Metro Council

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.

# Office of Internal Audit

Emergency Management Agency

Fiscal Administration



# Audit Report

Office of Internal Audit

## Emergency Management Agency

### Fiscal Administration

November 2004



Emergency Management Agency

Fiscal Administration

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OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA  
CHIEF AUDIT EXECUTIVE

## Transmittal Letter

November 29, 2004

The Honorable Jerry E. Abramson  
Mayor of Louisville Metro  
Louisville Metro Hall

### **Re: Audit of Emergency Management Agency Fiscal Administration**

#### **Scope and Opinion**

We have examined the operating records and procedures of the fiscal activity administered by the Louisville Emergency Management Agency (EMA). The primary focus of the audit was the operational and fiscal administration of the activity. This audit was requested by the newly appointed EMA Executive Administrator to assess fiscal administration for the department. This included how the Emergency Management Agency processes, records and monitors this activity.

As a part of our examination, we performed an evaluation of the internal control structure. Our examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

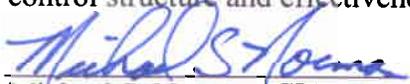
The operating procedures for administering fiscal activity were reviewed through interviews with key personnel. The operational and fiscal administration of activity was reviewed. The scope and methodology of the areas reviewed will be addressed in the Observations and Recommendations section of this report. Our examination would not reveal all weaknesses because it was based on selective review of data.

The internal control rating for each area reviewed is on page 4. These ratings quantify our opinion regarding the internal controls used in managing the activity and identify areas requiring corrective action.

It is our opinion that the overall internal control structure for the Emergency Management Agency is weak. There were some specific problems noted that indicate the internal control structure could be more effective. *The current Executive Administrator of the Emergency Management Agency requested the audit as part of assuming the departmental duties is not responsible for the weaknesses noted in this report.* Examples of the problems include the following.

- There is not adequate fiscal oversight for EMA activity. There does not appear to be a coordinated business manager function for the department to promote the administration of activity in an effective and efficient manner. This hinders the ability to safeguard assets and ensure that activity adheres to applicable requirements and guidelines.
- Revenue management is inadequate. Revenues are not processed in a manner to ensure activity is reported completely and accurately. Additionally, there are not sufficient procedures to help ensure that revenue is received timely and recorded on the financial statements as intended.
- Monitoring and reconciliation of fiscal activity is weak. This lack of oversight does not adequately protect the funds and weakens the reliability of the financial statements.
- File management is not sufficient. Files are often inadequate, incomplete or missing. This hampers the efficiency and effectiveness of information management, as well as, weakens the reliability of records.
- There is not adequate segregation of duties among personnel. Historically, administration of some activity was dependent upon a single individual (e.g., administering accounts payable, inputting and approving invoices, and administering billings and receiving payments).
- Functional operating policies and procedures are not provided for staff. This may lead to inconsistencies in processing of activities.

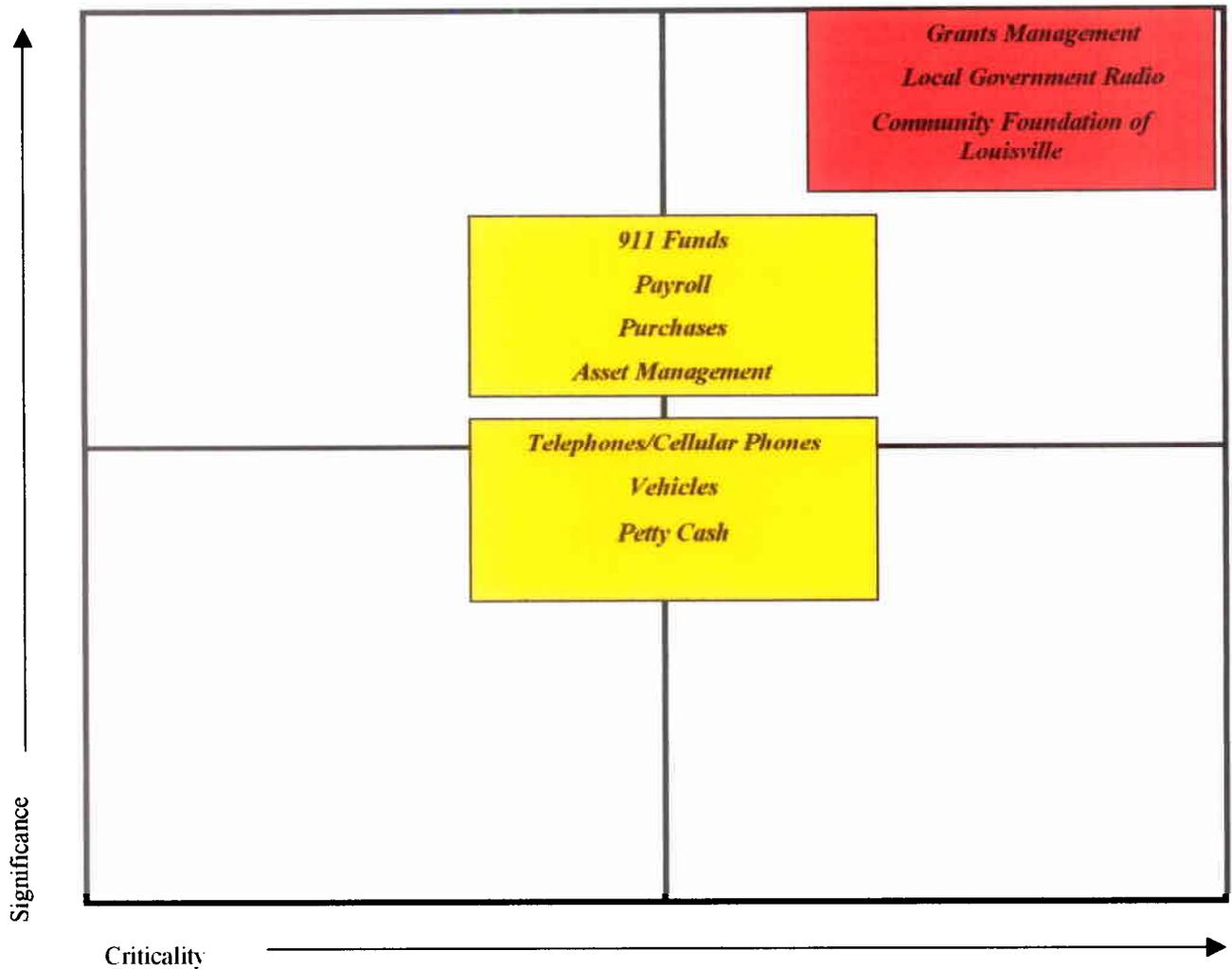
The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of EMA's operating activity.



Michael S. Norman, CIA  
Chief Audit Executive

cc: Louisville Metro Council Audit Committee  
Louisville Metro Council Members  
Deputy Mayors  
Secretary of the Cabinet for Public Protection  
Executive Administrator of the Emergency Management Agency

**Internal Control Rating**



<b>Legend</b>			
<b><u>Criteria</u></b>	<b><u>Satisfactory</u></b>	<b><u>Weak</u></b>	<b><u>Inadequate</u></b>
<b><i>Issues</i></b>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<b><i>Controls</i></b>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<b><i>Policy Compliance</i></b>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<b><i>Image</i></b>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<b><i>Corrective Action</i></b>	May be necessary.	Prompt.	Immediate.

## **Introduction**

The Louisville Emergency Management Agency is responsible for coordinating community resources to minimize the effects of natural, technological and nuclear emergencies or disasters, and for coordinating recovery from such occurrences. Additionally, the agency manages the operation, development and improvement of the 911 emergency telephone system, the countywide outdoor warning system and the Local Government Radio operation.

The fiscal year 2004 budget for the Louisville Emergency Management Agency was approximately \$3 million. This is comprised of Louisville Metro General Fund appropriations, along with Federal and State funds.

The new Executive Administrator of the Louisville Emergency Management Agency requested the audit as part of assuming the departmental duties. The current Executive Administrator is not responsible for the weaknesses noted in this report.

## **Summary of Audit Results**

### **I. Current Audit Results**

See Observations and Recommendations section of this report.

### **II. Prior Audit Issues**

The Office of Internal Audit has not previously audited the Emergency Management Agency fiscal administration, but certain EMA activity has been included in other previous audits. The review of the City of Louisville Community Foundation of Louisville activity issued July 2002 included EMA accounts. The review of City of Louisville interagency charges issued in December 2002 included EMA local government radio activity. Unless otherwise noted, all prior weaknesses have been satisfactorily addressed.

### **III. Statement of Auditing Standards**

Our audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

### **IV. Statement of Internal Control**

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.

V. **Statement of Irregularities, Illegal Acts, and Other Noncompliance**

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. **Views of Responsible Officials**

An exit conference was held at the Office of Internal Audit on October 26, 2004. Attending were Doug Hamilton representing the Emergency Management Agency; Mike Norman and Mark Doran representing Internal Audit. Final audit results were discussed.

The views of the Emergency Management Agency officials are included as responses in the Observations and Recommendations section of the report.

## Observations and Recommendations

### Grants Management

#### Scope

The Emergency Management Agency (EMA) procedures for grants management were reviewed through interviews with key personnel. This review encompassed revenues associated with grants. The review focused on the operational and fiscal administration of the revenue and how EMA processes, records, and monitors the activity. EMA is funded through several sources. In addition to Louisville Metro General Fund appropriations, the fiscal 2004 budget recorded on the Metro financial system included approximately \$2.3 million from grants and other funding sources.

A sample of periodic reports and reimbursement requests for a judgmentally selected sample of grant activity was reviewed for the period October 1, 2003 through March 31, 2004. The supporting documentation and financial activity were reviewed for accuracy, appropriateness, and timeliness. This review was intended to measure the efficiency and effectiveness of grant administration. Grant compliance was not assessed as part of this review and no determination was made as to whether activity complied with applicable guidelines. The following problems were noted.

#### Observations

Several problems were noted with Emergency Management Agency's administration of grants management activity that, as a whole, are indicative of an operating environment with an inadequate internal control structure. Examples include the following.

- EMA does not coordinate its financial assistance activity through the Metro Finance Grants Management Division and does not provide periodic reports to Metro Finance prior to submitting them to the grantors. This does not allow for proper oversight to help ensure completeness, accuracy and timeliness of reporting, along with adherence to funding requirements.

#### EMA General Operations Grant

- There were several problems noted regarding the administration of activity for the EMA General Operations Grant.
  - EMA staff do not adequately monitor revenue receipt activity. EMA did not believe that the reimbursement for the period ending March 31, 2004 (approximately \$49,000 from both the Federal and State governments) had been received. EMA was not aware of any reason for a delay, but no action had been taken to determine the status of the reimbursements (e.g., delayed payment, payment not properly recorded on financial statements). Internal Audit performed a cursory review of the Metro financial system to attempt to identify these receipts, but there was no evidence that the funds had been received.
  - EMA staff do not manage financial activity in an efficient manner. The Metro financial system capabilities are not used to the fullest extent in order to

accumulate and report grant activity. Manual review of detailed transactions is performed in order to identify individual transactions, which are compiled and reported on periodic grant reports. There were several instances where the supporting documentation did not agree to the information listed on the reimbursement form submitted to the State.

- Some instances were noted in which the amounts noted on the reimbursement forms did not agree with the amounts recorded on the Metro financial reports. These cases resulted in an apparent underreporting of expenditures in the amount of \$115.51.
  - The reimbursement form included an expenditure that was not recorded on the Metro financial system reports used to support the grant activity for the period. It appears this activity should have been included on the previous period report for the grant activity.
  - The payroll information recorded on the reimbursement form did not agree to the supporting information in a couple of cases (e.g., incorrect Payroll Advice Number, incorrect pay period). These were clerical problems that did not affect the reimbursement amount.
- The EMA file copy of the reimbursement form reviewed was not signed by a supervisor to document its review and approval. In addition, the reimbursement form was not dated to document when it was prepared/submitted to the State. This hinders the ability to determine the timeliness of submittal and receipt of reimbursement.

#### Community Emergency Response Team (CERT) Grant

- There were a couple of weaknesses associated with the monitoring and reporting of information for the Community Emergency Response Team (CERT) Grant.
  - The individual responsible for administering and monitoring the grant does not have access to the Metro financial system. This hinders the ability to obtain and reconcile information that is used to report grant activity.
    - The supporting documentation provided by EMA staff did not agree to the amount of CERT grant funds recorded as used-to-date on the quarterly report.
  - The EMA file copy of the quarterly report reviewed was not signed by a supervisor to document its review and approval. In addition, the reimbursement form was not dated to document when it was prepared and submitted to the State. This hinders the ability to determine the timeliness of submittal and receipt of reimbursement.

#### Hazard Mitigation Grant

- EMA staff have not consulted with the Metro Finance Treasury Division to determine how the Hazard Mitigation Grant revenue receipts will be processed. The intent is to have State reimbursements wire transferred to Louisville Metro, but the details have not been arranged. The review period did not include any chargeable costs and no reports had been submitted to the grantor, but invoices for grant expenditures had been received prior to the close of the funding award period (June 2004).

## **Recommendations**

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ All grant activity should be coordinated through the Metro Finance Grants Management Division in accordance with applicable policies and procedures. This will help ensure grant activity is administered in accordance with regulations and guidelines (e.g., Metro Government, Grantor, OMB circulars). Additionally, Finance oversight would help ensure that grant activity is properly reported and considered during the Louisville Metro annual financial review (e.g., single audit).
- ✓ EMA should take immediate action to determine the status of all anticipated revenue receipts. This includes verifying that funds have been received and accurately recorded on the Metro financial system.
- ✓ Requests for funds should be submitted on a timely basis and any delay in the receipt of funds should be documented. This will help with efforts to ensure all revenues due are received.
- ✓ Grant records should be periodically monitored to confirm that files are maintained appropriately.
- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that administrative staff reviews revenue information on a regular basis. This includes reviewing individual transactions for appropriateness, completeness and adherence to requirements, along with monitoring of financial system reports. Ultimately, transactions should be reconciled to the Metro financial statements to ensure the accurate and timely reflection of activity. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function.
- ✓ It is imperative that EMA identify all funding sources, documentation authorizing the funds and the associated requirements. The Metro financial system budget amounts should correspond with the applicable funding award for the period. An estimate that includes the documented methodology should be used if the actual revenue award is not known.
- ✓ Periodic reports and reimbursement forms should be prepared in accordance with the funding agreements. Prior to being submitted to the funding source, a supervisor should review and approve these reports, as well as Metro Grants management when applicable.
- ✓ Individuals responsible for monitoring fiscal activity should have access to the Louisville Metro financial system. This will help ensure that the activity is accurately reported. Metro Finance should be consulted regarding user accounts and appropriate access levels.
- ✓ EMA should utilize the Metro financial system to efficiently and effectively administer fiscal activity. This may include segregating funding sources into individual accounts so that information is readily available for reporting and monitoring purposes.

- ✓ Care should be taken to ensure that complete files are maintained for activity. Sufficient documentation would help to ensure the appropriate amounts are reported, received and processed timely. This includes periodic reports, reimbursement forms, and supporting documentation.
- ✓ The importance of complete and accurate documentation should be emphasized to all EMA staff responsible for the administration of revenue activity.

## Local Government Radio

### Scope

The Emergency Management Agency (EMA) procedures for administering Local Government Radio activity were reviewed through interviews with key personnel. This review encompassed interagency charges and billings of entities for radio system use. The review focused on the operational and fiscal administration of the how EMA processes, records, and monitors the charges/billings and collection activity.

EMA administers the Local Government Radio System that provides communications and related services for departments within Louisville Metro Government, as well as, some outside entities. Approximately \$23,000 was charged to radio system users for March 2004. A sample of these monthly charges and revenue collections was reviewed. This included the examination of EMA supporting documentation and the Metro financial system to determine the accuracy, appropriateness, and timeliness of the activity. The following problems were noted.

### Observations

Several problems were noted with Emergency Management Agency's (EMA) administration of Local Government Radio activity, as a whole, are indicative of an operating environment with an inadequate internal control structure. *This activity was examined as part of the review of the City of Louisville Interagency Charges audit report issued in December 2002. Many of the current weaknesses were also noted during the previous review.* Examples of weaknesses noted include the following.

- EMA personnel do not adequately monitor or reconcile radio system charges. This includes verifying the accuracy and completeness of internal reports, along with the activity recorded on the Metro financial system. This includes ensuring all usage and maintenance charges have appropriately been distributed to other entities and that revenue is properly recorded.
- Several months of the fiscal 2004 monthly radio charges were not processed timely. The monthly billings for July 2003 through January 2004 were not charged to the users until February 2004. It appears this was due to the fact that the EMA database used to administer radio charges was not edited to process the new Metro financial system account codes in a timely manner.
- One radio system user (TRIMARC) is billed annually. Based on documentation provided, it appears the entity had not been billed since January 2002.
  - These billings are not processed through the Miscellaneous Accounts Receivable system administered by Metro Finance. Instead, EMA staff receives payments in the mail and deposits them with the Metro Treasury Division. These duties have recently been assigned to a different EMA staff member who is not certain how to process these deposits (e.g., financial coding to be credited).
- Radio system usage fees may be somewhat outdated and were not sufficiently documented. Specific concerns include the following.

- The prior audit in December 2002 of EMA Interagency Charges noted that a cost analysis was performed in fiscal year 1995 to support the \$40 per radio charge. However, EMA staff could not provide this documentation. The costs have not been formally reviewed since and may have increased. EMA staff noted that the number of radio system users has decreased due to the increased use of other types of services (e.g., Nextel two-way/cellular phones). Based on this, it appears that an updated cost analysis would be beneficial. This would help to determine whether user fees are sufficient to cover the costs associated with operating the radio system.
- The documentation for some entities EMA provides radio services for could not be provided. Agreements including the services provided and usage fees charged for the Regional Airport Authority, Metropolitan Sewer District (MSD), and TRIMARC could not be located by EMA staff. This makes it impossible to determine whether the fees charged were accurate or the appropriate services were provided.
- The Radio Database, which is a detailed record of charges, does not agree with the actual charges processed on the monthly journal voucher. Though the agencies were actually billed the correct amounts, the inconsistencies in the reports may cause confusion when attempting to perform reconciliations.
  - Some users are charged a flat radio dispatch fee. These users are not included on the Radio Database but are included on the monthly journal voucher.
  - For the month examined, a computer system error resulted in the Radio Database recording an extra radio unit for one user. *Internal Audit notified EMA staff of this situation and the Metro Information Technology Department was contacted to address the problem.*
- Only one EMA staff member is trained to process the monthly billings. No other EMA personnel are familiar enough to serve as a backup.

### **Recommendations**

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ EMA management should reference the previous review of the Local Government Radio system included in the City of Louisville Interagency Charges audit report (issued in December 2002). This will help identify ongoing issues that may need to be considered as current weaknesses are addressed.
- ✓ Appropriate EMA personnel should routinely monitor and reconcile Metro financial reports, as well as internal records, to ensure radio system usage transactions are posting properly. This process is an essential step in ensuring all revenue is received and accounted for.
- ✓ It is imperative that EMA staff reconcile activity to ensure the revenue is posted properly to the Metro financial system. Supervisory personnel should ensure the performance of reconciliations and sign them to document review.
- ✓ EMA personnel need to understand the technological processes they follow when administering radio charges. This will help provide assurance that summary and

detail reports are providing intended results. EMA may want to seek assistance from Information Technology personnel to gain an understanding of the databases they maintain, commands they issue, and how report results are generated. This could also help avoid potential delays in administering this activity.

- ✓ EMA personnel responsible for administering radio system usage fees should have a defined schedule they follow for charging departments via journal vouchers and billing entities through the accounts receivable system (e.g., monthly, annually). Ideally, charges should be processed within the first few days following the month in which they were incurred. This would allow for interagency transactions to post to the Metro financial system in a timely manner, as well as outside entity revenue to be generated in a more timely fashion. Annual billings should be performed on a calendar or fiscal year basis.
- ✓ EMA personnel should review their records to ensure all outside entity billings have been processed, and revenue has been received and properly posted. Any radio system usage fees that have been incurred and not yet billed to the applicable entity should be processed immediately.
- ✓ The feasibility of using the Louisville Metro Miscellaneous Accounts Receivable system administered by Metro Finance for the billings to outside entities should be considered. This would allow for efficiencies and internal controls inherent within the system.
- ✓ EMA may want to consider performing another cost analysis of the Local Government Radio system. Updated information would help determine the actual charges and usage for the system.
- ✓ No matter the entity type, Metro department or an outside entity, EMA should maintain documentation of the fees charged for use of the radio system. This will support the rationale behind the rates charged and provide guidance when any entities are added to or removed from use of the radio system.
- ✓ Signed agreements should be maintained between EMA and outside entities to document agreement of both parties to specified terms (services, rates, duration, etc.).
- ✓ The radio system database maintained by EMA should be revised to reflect true amounts charged/billed to each entity. This will assist EMA personnel with monthly reconciliations in that the database total should agree to the sum of the journal voucher charges and accounts receivable billings. EMA may want to seek assistance from Metro Information Technology personnel in order to revise the database.
- ✓ More than one EMA employee should be trained in the processes for administering radio system usage fees. The processes should be thoroughly documented and easily accessible for referencing as needed. This will allow for continuous operation in the case of any personnel absences.

**Scope**

Key personnel were interviewed to document the general policies and procedures associated with the administration of Emergency Management Agency's (EMA) accounts managed through the Community Foundation of Louisville (CFL). The former City of Louisville policies and procedures allowed for the use of CFL accounts when certain criteria were met and it was advantageous to have the Foundation maintain the accounting records. The purpose of this review was to determine the adequacy of internal controls for the administration of Community Foundation accounts, which includes how receipts are processed, recorded and monitored.

During the review period, EMA used the Community Foundation of Louisville to manage the following two accounts.

- **Kentuckiana Business Continuity Planners account.** This account was established to provide educational, training and professional development programs for continuity and disaster planners within local businesses and other agencies. The account was intended to be funded from membership dues and registration fees charged to participants who belong to the group or participated in educational activities, along with any corporate and private donations that might be generated. The expenditures were expected to be for educational materials, programs, speakers, publications, and related expenses. The account was closed as of September 2003 and the balance of \$3,578 was transferred to the bank account of a non-Metro Government organization that will manage the activity.
- **Louisville-Jefferson County Emergency Management account.** This account was established to fund emergency management conferences. The fund was intended to be funded from registration fees charged to participants in educational activities, along with any corporate and private donations that might be generated. The funds were expended for conference costs such as handbooks and refreshments. In addition, expenses included fees for professional speakers, along with lodging and travel expenses. The account balance as of March 2004 was \$6,648.

The population of EMA Community Foundation of Louisville account transactions for the period July 1, 2003 to March 31, 2004 was examined to ensure the completeness, accuracy, and adherence to described procedures and Metro Government policy, and appropriateness of the activity processed. Supporting documentation for disbursements/transfers totaling \$4,378 and a receipt of \$100 was examined. This examination included reviewing invoices, payment vouchers, depository documentation and quarterly statements for the CFL activity. The following concerns were noted.

**Observations**

Several problems were noted with Emergency Management Agency's Community Foundation of Louisville account management that, as a whole, are indicative of an operating environment with an inadequate internal control structure. There are increased risks associated with the administration of these types of "off-book" accounts. *Many of the current weaknesses were also noted during the previous review of CFL accounts.* Examples of weaknesses noted include the following.

- EMA does not process CFL activity through the Metro Finance Department in accordance with Louisville Metro policies and procedures. This does not allow for the internal controls and oversight intended in the procedures to be effective. The following are examples of practices that weaken the CFL account activity.
  - EMA did not consult with Finance in order to establish the CFL accounts. Therefore, there was no review outside of EMA to ensure that the accounts were established for a purpose allowable under the applicable requirements.
  - CFL account deposits and disbursements are not processed through Metro Finance. EMA staff requests payments directly from the CFL and account statements are sent to EMA instead of Metro Finance. Therefore, EMA maintains the only records for transactions and reconciliations. This does not promote proper segregation of duties or adequate monitoring.

There were some cases in which complete supporting source documentation was not included with the Emergency Management Agency CFL file. This hinders the ability to adequately assess the appropriateness and accuracy of the transactions (e.g., purpose, timeliness, completeness). The following are examples of the missing documentation.

  - Vendor invoices or receipts were not provided to support two of the distribution transactions reviewed. The information available documented these funds being expended to cover the expenses of a retirement celebration for the EMA Executive Administrator. It was noted that the former EMA Executive Administrator authorized one of these expenditures.
  - The quarterly statement for the period October 1, 2003 to December 31, 2003 was not on file in the EMA office. However, the EMA file does appear to contain complete documentation for transactions during that period.
- It did not appear any of the expenditure activity complied with the intent of the CFL accounts. All expenditures for the period were associated with one of two retirement parties. The Kentuckiana Business Continuity Planners account was charged \$126.25 for the retirement of the group's president and the Emergency Management account was charged \$673 for the retirement of the former EMA Executive Administrator.

### **Recommendations**

Appropriate EMA personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ EMA management should assess the need for the remaining Community Foundation of Louisville account. The account should be closed if the intended purpose has expired. If management anticipates a future need for the type of activity the fund was established for, consideration should be given as to whether activity could be administered using the Metro financial system. This would allow the benefit of internal controls and oversight inherent within the system.
- ✓ All Community Foundation of Louisville activity should be administered in accordance with Louisville Metro policies and procedures. The Metro Government policy provides for proper segregation of duties and oversight to help ensure activity is managed appropriately.

- ✓ Funds should only be expended for the official purpose of the CFL fund intent. The CFL should not be used to bypass Metro policies and procedures or for purposes that may conflict with the purpose for which the fund was established.
- ✓ Care should be taken to ensure that complete files are maintained for CFL account activity. This includes deposits, distributions and supporting documentation. The importance of complete and accurate documentation should be emphasized to all individuals.
- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that administrative staff reviews the CFL information on a regular basis. This includes reconciliation of quarterly statements/deposit activity, along with monitoring of internal records for completeness and adherence to requirements. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function.
- ✓ The responsibility of monitoring financial activity should be assigned to a responsible EMA staff member. Routine reconciliation of activity helps promote accountability and ensures internal controls are functioning as intended.
- ✓ All revenue receipts should be maintained in a secure manner prior to being deposited. Access should be limited to authorized individuals.
- ✓ All funds received should be deposited as soon as possible to ensure assets are safeguarded. Appropriate personnel should ensure all applicable policies and procedures are adhered to.
- ✓ Custody should be documented any time funds are transferred from one individual to another. This helps to ensure accountability and safeguarding of assets.

## 911 Funds

### Scope

Emergency Management Agency's (EMA) procedures associated with the administration of the 911 funds were reviewed through interviews with key personnel. EMA is responsible for administering activity associated with surcharges collected by telephone service providers. Funds are intended to help support 911 emergency services.

EMA is responsible for the administration of two types of activity associated with 911 services.

- **911 Fund.** These are funds collected from stationary (land line) local telephones. Fiscal activity is not recorded on the Metro financial system, rather the Metro Finance Department manages the fiscal activity and retains the operating funds in an interest-bearing bank account. Additionally, Finance manages the investment of idle funds. As of February 2004, the 911 Fund operating cash totaled approximately \$375,000 with investments totaling approximately \$8.6 million.

An examination was performed for a sample of surcharge revenues and payments made from the 911 Fund bank account. In addition, a sequential analysis was performed for the population of check numbers to ensure all checks were accounted for.

- **911 Wireless Fund.** The 911 Wireless Funds are intended to help support emergency call systems servicing wireless users (e.g., cellular telephones). Fiscal activity is recorded on the Metro financial system. Payments to Louisville Metro for 911 wireless funds are determined by the State. EMA anticipated approximately \$400,000 of revenue during fiscal 2004 for 911 wireless surcharges.

A sample of periodic reports/reimbursement requests was examined. This review was intended to measure the efficiency, and effectiveness of revenue administration. Compliance with funding program requirements was not assessed as part of this review and no determination was made as to whether activity complied with applicable guidelines.

The following issues were noted.

### Observations

There were some weaknesses noted with the 911 funds. As a result, the internal control structure is weakened and its effectiveness impaired. Examples of the weaknesses include the following.

#### 911 Fund

- Louisville Metro Government ordinance authorizes an Emergency Telephone System Fund in accordance with Kentucky State Statute. Commercial telephone service providers who offer 911 emergency service to subscribers within Louisville Metro collect a surcharge of \$.79 per line. The service providers submit these funds to

Metro Government on a monthly basis. Metro Government retains these funds in an interest-bearing bank account, along with administering investments for the idle funds. The State guidelines determine the uses for which these funds may be expended.

- During the review period, this activity was not recorded on the Louisville Metro financial system. The Metro Finance Department played a key role in managing activity by maintaining an ancillary bank account for these funds. There are often inherent risks associated with managing ancillary bank accounts and accounting records.

According to Metro Finance, financial accounts have now been established in the Metro financial system for the 911 funds and all operating activity is now processed in accordance with standard Metro financial policies and procedures. While the ancillary bank account does still exist, Metro Finance advised that funds were transferred to the Metro bank account and the 911 Fund ancillary bank account balance is zero.

- Metro Finance staff is responsible for monitoring and reconciling bank account and investment activity. Specific duties and tasks had not been defined and assigned. Therefore, monitoring did not appear to be occurring.
- According to Metro Finance, a portion of the 911 fund investments has been included with the general Louisville Metro investments, but that approximately \$2 million is in a separate investment that is not recorded on the Metro financial system. The Metro Finance Department management is currently considering the most beneficial manner in which to administer this activity.
- A review of expenditure activity revealed a few concerns. While these payments were not processed through the Metro financial system, most standard policies and procedures should be considered for the use of the 911 Fund.
  - For one of the receipts examined, the name of the individual signing the invoice as received was the same individual signing the EMA payment request memo (serves as a payment document from the agency). In the other two cases, there was no signature on the vendor invoice.
  - Based on the invoice date compared to the check date, one payment was not made timely in accordance with State requirement. Based on the EMA memo date, it appears as though the payment request was submitted to Metro Finance Treasury in a timely manner.
  - Reconciliations could be improved to better document complete activity. A sequential listing of checks based on check number information recorded on the 911 Fund ledger revealed three check(s) missing in sequence. While the ledger did not include any notations for these checks, Metro Finance was contacted to locate the missing items and they had all been voided.

### 911 Wireless Fund

- In accordance with Kentucky State Statute, EMA receives 911 Wireless Funds intended to help support emergency call systems servicing wireless users (e.g., cellular telephones). Payments to EMA are determined by the State based on two components, the workload and the pro-rata amounts. The workload payment is based on a formula that considers the number of wireless 911 calls answered and the number of wireless phone users served. The pro-rata payment is an amount

determined each quarter by the State and differs for each participating jurisdiction. There were several problems noted regarding the administration of this activity.

➤ It does not appear that EMA adequately monitors the 911 wireless revenue. This includes the actual receipt of funds and the recording of activity on the Metro financial system. For the period examined, EMA could not conclusively account for the revenues due.

- EMA staff do not adequately monitor revenue receipt activity. EMA did not believe that the reimbursement for the period ending December 30, 2003 had been received for either the workload or the pro-rata amounts. EMA was not aware of any reason for a delay, but no action had been taken to determine the status of the reimbursements (e.g., delayed payment, payment not properly recorded on financial statements).

While EMA could not provide an estimate of the amount due for the workload payment, Internal Audit performed a cursory review of the Metro financial system to attempt to identify these receipts. The financial system detail did include some transactions that were identical to the anticipated pro-rata amount (\$10,031.54 for City and County portion). It could not be determined if the 911 funds were actually received or not.

- It was not clear whether the pro-rata funds had been received or not. EMA staff could not determine the status of the funds. Transactions that involved the anticipated revenue receipt were observed during a cursory review of Metro financial system statements for EMA, but could not be definitively identified.

➤ Sufficient information is not provided for EMA staff to monitor 911 Wireless fund revenue and to ensure the appropriate amounts are received in a timely manner. The State primarily uses email correspondence to provide information regarding the 911 Wireless funds activity. The State sends separate emails for the workload and pro-rata payments. The following are examples of problems that hinder the usefulness of these communications.

- EMA staff were not aware of any routine schedule for notification of funds due. This makes it difficult to estimate when funds should be anticipated or to measure the timeliness of revenue receipts.
- The emails from the State provide the amounts that will be paid, but EMA staff are not aware of the detailed calculation of the amounts. This makes it impossible to determine whether the payments are accurate based on the guidelines.

➤ EMA could not provide a copy of the certification packet for the 911 Wireless funds. This information is required to be submitted to the State to determine/verify that EMA is eligible to receive these funds.

### **Recommendations**

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ The inclusion of all 911 fund fiscal activity on the Metro financial system should address many concerns. The internal controls inherent in the Metro financial system, along with the associated policies and procedures, will improve the management of

fiscal activity. Additionally, Metro financial system reports should more efficiently promote fiscal activity in an accurate and effective manner.

- ✓ EMA should take immediate action to determine the status of all anticipated revenue receipts. This includes verifying that funds have been received and accurately recorded on the financial records.
- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that administrative staff review the information on a regular basis. This includes reviewing individual transactions for appropriateness, completeness and adherence to requirements, along with monitoring of financial system reports. Ultimately, transactions should be reconciled to the 911 fund records (e.g., bank statements, financial ledgers, Metro financial system) to ensure the accurate and timely reflection of activity. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function.
- ✓ While functional management and reconciliation of investment activity should be assigned to Treasury, EMA staff are ultimately responsible for the 911 Fund. EMA monitoring activity should include oversight of investments for the 911 Fund.
- ✓ To the extent possible, the same individuals should not have the ability to receive invoices and authorize payment documents. In cases where complete segregation is not feasible (e.g., staff size constraints), appropriate compensating controls should be practiced (e.g., segregate authorization and monitoring duties).
- ✓ Care should be taken to ensure invoices are processed in a timely manner. All invoices should be date/time stamped when received from the vendor and any divisions/areas with consistent processing delays should be identified and corrective action taken. Any instance in which a payment is intentionally delayed (e.g., dispute with vendor) should be properly documented. This documentation should be submitted to Finance with the payment document.
- ✓ Bank account reconciliations should include the completeness of activity recorded on 911 Fund reports. Any missing transactions should be identified and properly accounted for.
- ✓ All funding sources should be coordinated through Metro Finance. This includes State funding for programs. Finance oversight would help ensure that all funding activity is properly reported and considered during the Louisville Metro annual financial review.
- ✓ Records should be periodically monitored to confirm that files are maintained appropriately.
- ✓ It is imperative that EMA identify all funding sources, documentation authorizing the funds and the associated requirements. The Metro financial system budget amounts should correspond with the applicable funding award for the period. An estimate that includes the documented methodology should be used if the actual revenue award is not known.
- ✓ Periodic reports and reimbursement forms should be prepared in accordance with the funding agreements. Prior to being submitted to the funding source, a supervisor should review and approve these reports.

- ✓ Individuals responsible for monitoring fiscal activity should have access to the Louisville Metro financial system. This will help ensure that the activity is accurately reported. Metro Finance should be consulted regarding user accounts and appropriate access levels.
- ✓ Payments from the funding sources should be monitored for accuracy and timeliness. Any delay in the receipt of funds should be documented. This will help with efforts to ensure the correct revenue amounts are received.
- ✓ Care should be taken to ensure that complete files are maintained for activity. Sufficient documentation would help to ensure the appropriate amounts are reported, received and processed timely. This includes periodic reports and supporting documentation.
- ✓ The importance of complete and accurate documentation should be emphasized to all EMA staff responsible for the administration of revenue activity.

## Payroll

### Scope

The Emergency Management Agency's (EMA) payroll procedures were reviewed by interviewing key personnel. EMA had 28 employees, consisting of twenty-five full time and three permanent part-time employees. The annual budget for fiscal year 2004 personal services totaled \$1,048,300; which is 82% of the total operating budget.

The pay period ending April 24, 2004 was examined to determine the adequacy of procedures and the adherence to policies and procedures. The entire population of EMA employees was selected for review. All records pertaining to the payroll (employee time sheets, master payroll sheets, etc.) were examined. The following problems were noted.

### Observations

There were several problems noted in EMA's payroll procedures. As a result, the internal control structure is weakened and its effectiveness impaired. Examples include the following.

#### Payroll Administration

- EMA staff do not reconcile activity with applicable payroll system reports. The Metro Finance Payroll Division distributes routine activity reports (Expense Distribution Report, Payroll Check Print, Payroll Advice Print, and Payroll Register, Leave Status Report). In addition, on-line information is accessible through the Metro Human Resources/payroll system. These reports are not used to appropriately monitor payroll activity and related expenses.
- EMA does not have a departmental manual documenting policy and procedures for payroll administration.

#### Employee Time Sheets/Time Cards

- Several problems were noted during the review of employee time sheets and time cards. A number of the problems related to incomplete or incorrect information recorded on the time sheets and time cards. The following issues were noted.
  - Employees either clock "in" and "out" using a time clock or by recording their work schedule on a time sheet. The hours worked are totaled for each workday, week and pay period. Some of the "time in" and "time out" times recorded on time sheets and time cards did not agree to the total hours recorded. These types of calculation errors resulted in the misstatement of payroll hours for some employees.
    - Several cases were noted in which individual time report information was not totaled. This increases the possibility of errors occurring for time reported.
  - There were a number of cases found where the "time in" or "time out" time was not noted on the time sheet or time card. This makes it impossible to verify the accuracy of the hours reported.

- One individual employee time sheet did not specify the type of time earned (regular, overtime, other, etc.). This can result in confusion and miscoding of payroll hours.
- EMA staff do not adequately document the approval of time worked in excess of the standard number of hours. Several cases were noted in which overtime was recorded on the individual time report, but there was no notation of the reason or documentation of supervisory approval.
- Employees and supervisors do not routinely sign time sheets and time cards. Several cases were noted in which the employees did not sign their time report to attest for the accuracy of time they were paid for. In addition, several cases were noted in which the time reports were not signed by the supervisor to document review and approval of the time reported.
- EMA does not have a departmental policy requiring prior written leave approval for all staff, but some divisions do require request forms. In cases where forms are required, the requests are submitted to the applicable supervisor for review/approval. Some weaknesses were noted regarding the use of the request forms.
  - The Leave Status Report is not used by all supervisors to ensure that a sufficient leave balance is available to cover the time requested. While some EMA supervisors do verify available leave time (e.g., vacation) to the departmental leave request forms, this is not a consistent practice.
  - The leave request forms are not routinely referred to during the supervisory review/approval of individual time reports. In addition, the request forms are not maintained with the time reports. This lessens the usefulness of the forms as records to document the prior approval of leave time recorded on the time sheet/time card.

### Payroll Reporting

- For the period reviewed, EMA adhered to the former City of Louisville payroll policies and procedures. A number of problems were noted during the review of the Master Payroll Time Sheets. This included the recording of incomplete or inaccurate information and noncompliance with policies. The following are some examples of the types of problems found.
  - The City of Louisville Finance & Budget policy and procedure manual states that the left-hand side of the Master Payroll Time Sheet should be completed to reflect the actual time worked by an employee as recorded on the employee's individual time sheet or time card. There were several differences found between some of the employees' time sheets/time cards and the Master Payroll Time Sheet.
    - In one case, the Master Payroll Time Sheet noted a half-hour more compensatory time than the employee recorded on their time sheet. This error overstated the employee's time worked.
    - In another case, the employee time sheet noted a half-hour more overtime than the Master Payroll Time Sheet. This understated the employee's time worked and gross pay.
    - The Master Payroll Time Sheet for one employee recorded twenty-four hours worked while the time card noted sixteen hours. This error overstated the employee's time worked.

- One of the employee time sheets reflected sixty-two hours of vacation and twenty-two hours of compensatory time used. The Master Payroll Time Sheet reflected eighty hours of vacation time.
- Five entries on the Master Payroll Time Sheet did not accurately reflect the actual dates and times worked by the employees. The hours worked were entered on a day other than when worked.
- In one case, the pay rate noted on the right side of the Master Payroll Time Sheet did not agree with the labor contract. The timecard indicated that the employee worked overtime during the 3<sup>rd</sup> shift and the union agreement included a differential pay of \$0.20 per hour for third shift. The employee's hourly pay rate on the Master Payroll Time Sheet was only adjusted \$0.10 per hour, understating the amount that should have been paid.
- Status codes are listed for use on the left-hand side of the Master Payroll Time Sheet to indicate the type of time paid. For the period examined, the proper status codes were not used for the types of time paid (e.g., sick, vacation, comp earned, comp used).
- EMA staff do not adequately verify or adhere to policies and procedures to document the preparation and authorization of the information on the Master Payroll Time Sheet.
  - The EMA manager authorizing the Master Payroll Time Sheet does not routinely verify the information recorded to the source documents (e.g., individual time sheet/card, approved leave request).
  - The signatures of the preparer and approver for the Master Payroll Time sheet do not strictly adhere to the applicable guidelines. The policies and procedures require that the payroll clerk responsible for completing the Master Payroll Time Sheet sign the bottom of each time sheet to attest that the information is correct. Also, the person authorized to approve payroll must sign on the last page of each agency's time sheets to attest that the time sheets have been reviewed for accuracy and completeness. The payroll clerk and the authorized approver each signed the first page of the Master Payroll Time Sheet.
- Louisville Metro is currently implementing the Peoplesoft Time and Labor system in phases, which will include EMA's use in the future. This system should help to alleviate some of the clerical issues noted in this report. Increased importance will be placed on EMA's processing of accurate information since individual departments will be responsible for entry of information directly into the system.

### **Recommendations**

Appropriate EMA personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

#### **Payroll Administration**

- ✓ EMA's use of the Metro PeopleSoft Time and Labor system should help address many of the problems found with payroll administration. EMA management should ensure that departmental policies and procedures are adopted to adhere to the new process requirements. This will promote accurate payment of employees while benefiting from the inherent controls and efficiencies of the system.

- ✓ A formal, documented payroll reconciliation process should be adopted to include the review of information contained on the check register, payment registers and expense distribution report.
- ✓ Written policies and procedures should be developed for EMA's payroll function. This includes all pertinent information related to EMA's processing, recording and monitoring of activity. This manual should include sufficient detail for each job duty performed, copies of forms used, and the policies followed in the processing of activity. This information should be distributed to all applicable personnel and may be used as a training manual for new staff. Training of key personnel will help ensure consistent adherence to the requirements.

### Employee Time Sheets/Time Cards

- ✓ All employees should complete a time sheet/time card. This documentation provides accountability for the expense and a physical record of actual time worked.
- ✓ The importance of accurately completing time sheets/time cards, along with supervisory review, should be stressed to all employees. All time reports should be dated to document that the proper hours are recorded for the appropriate pay period. The hours worked should be totaled for each week. Proper documentation for any adjustments or exceptions should be provided.
- ✓ Actual time in/time out and total hours per day should be recorded on the time report employees.
- ✓ The individual time sheets/time cards should be signed by the employee to attest to the time reported.
- ✓ Time sheets/cards should be submitted to the supervisor for review and approval. The supervisor should submit the time reports to the payroll representative, who ensures all are received and approved for processing. If the time reports do not have the proper authorization, the supervisor should be contacted for follow-up.
- ✓ Any adjustments to the employee's time reports should be properly documented and initialed by both the supervisor and the employee. This is to ensure that the time recorded on the payroll sheet actually reflects the approved time worked.
- ✓ The earning type for all payroll hours should be specified on all time sheets and time cards. This reduces confusion and errors during payroll processing.
- ✓ Whenever possible, prior approval should be obtained from the supervisor for overtime/compensatory time earned. The reason for overtime/compensatory time worked should be documented for each occurrence. This time worked should be recomputed and the purpose approved by the supervisor during the review of the individual time sheet.
- ✓ Request for use of leave time should be approved in advance and documented. This should apply for, at a minimum, any use of one full day or more. This helps to ensure that proper coverage is available for the absent employee.

- ✓ Supervisors should have access to a leave status report to verify the availability of time for the employee before signing as approved. Leave time request forms should be attached to the employee's individual time sheets submitted to the payroll representative.

### Payroll Reporting

- ✓ Care should be taken to ensure that the information on the employee's time sheet/time card is accurately transferred/recorded on whatever format is used to process payroll (e.g., Master Payroll Time Sheet, PeopleSoft Time and Labor system).
- ✓ Supervisory review should include examining a sample of individual time sheets to verify that information was properly transferred to the payroll records.
- ✓ The preparation and approval of payroll records should be administered in accordance with applicable Louisville Metro policies and procedures.

## Purchases

### Scope

Emergency Management Agency's (EMA) purchasing procedures were reviewed through interviews with key personnel. A sample of twenty payment transactions from July 1, 2003 through March 31, 2004 was examined. The sample included payments for goods/services, employee reimbursements and out-of-town travel.

The review was conducted in order to evaluate the adequacy of EMA's procedures, as well as, adherence to Metro policies and procedures. The examination of the sample transactions included an evaluation of payment timeliness based on Kentucky State Law requirements. A cursory review of the payment population was performed to identify possible duplicate payments. The following concerns were noted.

### Observations

There were several problems noted in Emergency Management Agency's purchasing procedures. As a result, the internal control structure is weakened and its effectiveness impaired. Examples include the following.

#### Segregation of Duties

- There were some segregation of duties concerns associated with the EMA staff. The following issues, along with a weak monitoring system, increase risks associated with purchasing activity.
  - In the past, a single manager administered all accounts payable/purchasing fiscal activity. This included managing documents and inputting information into the Metro financial system. No other staff was trained as backup.
  - In many cases, the same individual who approves the invoice for processing also signed the payment document that authorized Metro Finance to produce a check. While some invoices did include the signature/initials of the individuals receiving the goods/services, many cases did not.
    - Some EMA equipment is managed and maintained by Public Works Electrical Maintenance staff (e.g., EMA sirens). Items are ordered and received by Electrical Maintenance staff, and the invoices are forwarded to EMA for payment processing. Electrical Maintenance staff may not sign the invoice as the receiver. This does not document proper segregation for the expenditure of funds and accountability for the related equipment.

#### Timeliness

- Kentucky State Law requires that invoices be paid within 30 days of receipt. Some problems were noted regarding the timely payment of invoices.
  - Vendor invoices are not stamped upon receipt. This does not accurately provide documentation of the date the invoice is actually received in order to assess payment timeliness adherence to State requirements.

- The invoice date was compared to the check date for the sample of purchases examined. It appears that six invoices were not paid timely. In five of the cases, EMA appeared to delay submission of the documentation to Metro Finance for processing. In one case, the delayed payment may have been related to the implementation of Metro Government's new financial system.
- Metro Government policies and procedures include requirements for the processing of out-of-town travel documentation. One case was noted in which the travel reconciliation did not appear to have been processed timely (e.g., within 10 days of return since an advance was given). This resulted in delaying a refund from the employee due to Metro Government.

### Monitoring and Reconciliation

- There is not an adequate monitoring and reconciliation process for EMA expenditure activity.
  - There is no formal documented reconciliation performed. A cursory review of the financial transactions is performed and financial system reports are referenced as needed, but this is not documented.
  - One case was noted in which a vendor invoice was paid twice (\$23.97). The payments were based on two vendor copies of the same invoice. The Metro financial system reflected the accurate invoice number for the initial payment, while the second payment was based on a miskeyed invoice number.
  - In the case of one travel reconciliation, financial statements reflected the transaction as "PENDING" even though the final reconciliation had been processed and paid. This appeared to be a result of the initial travel costs being charged to a different financial coding than the final reconciliation.

### Documentation (accuracy, appropriateness, completeness)

- Several weaknesses were noted during the examination of individual transactions. There were problems related to the accuracy, appropriateness and completeness of payment documentation.
  - In one case, an actual vendor invoice was not present. A vendor statement was used to support the payment and did not contain detailed description of the goods purchased.
  - In one case, the original invoice was not attached to the Metro Finance payment document. A copy of the invoice was used to support the payment without an explanation (e.g., original lost). This increases the potential for a duplicate payment.
  - In one of the cases, the mileage report also included a handwritten note that served as a receipt for meal costs (\$5) included in the total reimbursement amount. This was not a vendor/store receipt and non-mileage expenses should not be included on the mileage reimbursement form.
  - One case was reviewed in which a late conference registration was paid instead of early registration (\$175 versus \$150) and no explanation was provided.

- In two cases, the financial coding used was not appropriate to describe the goods/services purchased. This distorts the financial statements and does not accurately present operating costs.
- Two cases were noted in which the vendor address/remit to address per the invoice did not agree with the payment document generated by the Metro financial system. While the check was payable to the appropriate vendor, the invoice documentation did not reference the location the payment was addressed to.
- In one case, the payment included tax (\$0.84). It was not clear if this was a State sales tax Metro Government is exempt from paying, or another type of tax.

### Adherence to contracts

- There were problems noted for all EMA purchases referencing contracts. EMA did not appear to adhere to contract requirements, or adherence could not be determined, for the transactions reviewed.
  - While the expenditures in one case appeared to be similar to those included on the contract authorizing the payment, the required monthly payment amount did not agree. EMA staff provided an email from the vendor making adjustments to the billing amount related to changes in equipment being maintained. This email appeared to correspond with the contract referenced on the payment document and the monthly payments were based on this adjusted amount.
  - While the expenditures in two cases appeared to be similar to those included on the contract authorizing the payment, they were not specifically included. This may have been due to the fact that the contract documentation available was not for the transaction period. The Metro Purchasing Department was contacted and could provide a renewal letter for one of the contracts, but no additional information was available (e.g., updated item/price list).
  - In another case, the contract approved hourly pay rates based on the classification of the individual providing services (project manager, project engineer, technician, etc.), but the invoice provided charges for three individual names without classification titles. In addition, an hourly rate, which did not correspond to any of the contract rates, was only provided for one individual. Only total charges were provided for the other two individuals.

### Policies and Procedures

- There were some problems regarding policies and procedures used to administer EMA purchasing activity.
  - While there was an overall agency policies and procedures manual, there were no documented agency policies and procedures for EMA purchases.
  - It was explained that a responsible staff member was expected to determine the need to purchase goods/services, but there was no documented listing of individuals authorized to initiate purchase requests. Therefore, EMA staff processing payment documentation had to be familiar with the appropriateness of the individuals submitting payment documentation for goods/services.
  - Payment documents were retained in a bin on a desktop. It was not clear how the payment documentation was filed or who was responsible for it.

## Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

### Segregation of Duties

- ✓ To the extent possible, the same individuals should not have the ability to receive invoices, authorize payment documents and authorize payment processing through the Metro financial system. Appropriate compensating controls should be practiced in cases where complete segregation is not feasible (e.g., segregate authorization and monitoring duties).
- ✓ The individual receiving the goods/services should document the actual receipt. This can be accomplished by signing a packing slip, or some other type of document. This is even more important since some EMA equipment is managed and maintained by Public Works Electrical Maintenance staff.
- ✓ All invoices should be reviewed and approved by a responsible staff member prior to payment. These individuals should review all source documentation to ensure the transaction appears appropriate. This includes ensuring the goods/services were actually received.
- ✓ The responsible manager reviewing payment requests should review all supporting documentation and signatures. This individual should be on record with the Finance Department as authorized to sign the payment document for processing. Metro Finance should be notified of any changes in signature authorizations, whether it is for document approval or check pickup.
- ✓ Backup staff members should be trained for key positions so that payments can be processed during the absence of the individuals these duties are assigned to.

### Timeliness

- ✓ Care should be taken to ensure invoices are processed in a timely manner. All invoices should be date/time stamped when received from the vendor and any divisions/areas with consistent processing delays should be identified and corrective action taken. Additional training of key personnel may be necessary. Any instance in which a payment is intentionally delayed (e.g., dispute with vendor) should be properly documented. This documentation should be submitted to Finance with the payment document.
- ✓ It is imperative that travel documentation and reconciliations be processed within the time parameters required by Finance's policies and procedures. This helps to ensure that employees are paid for expenses and that Louisville Metro receives funds due in a timely manner.

## Monitoring and Reconciliation

- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that administrative staff reviews the information on a regular basis. This includes reviewing individual transactions for appropriateness, completeness and adherence to requirements, along with monitoring of financial system reports. Ultimately, transactions should be reconciled to the Metro financial statements to ensure the accurate and timely reflection of activity. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function.
- ✓ A formal, documented reconciliation process should be implemented. It is strongly recommended that the detailed monthly financial reports be compared to the applicable source documents, at least on a sample basis. This helps ensure the transactions were processed as intended and posted to the proper financial centers. This also helps strengthen the reliability of the financial statements.
- ✓ The Metro financial system has the capability to provide agencies with various reports (Budget Report by Department/Division/Unit Activity, Journal Detail Report, Invoice Aging Report, Payment History, etc.). This information is available to authorized agency staff and should be used to routinely monitor and reconcile activity.
- ✓ Care should be taken to ensure that invoices are coded to the proper financial account. Part of the formal reconciliation process should be ensuring the transaction posted to the proper account on the Metro financial system.

## Documentation (accuracy, appropriateness, completeness)

- ✓ As part of the payment approval process, appropriate personnel should review all source documentation to ensure Metro policies and procedures are followed. Additionally, this review should ensure that the payment documentation is accurate, complete and charged to the appropriate financial coding.
- ✓ The Department of Finance is the official custodian of payment documentation. Agencies should provide sufficient supporting documentation. Payments should not be made based on vendor statements, rather the original vendor invoice should be provided to Metro Finance.
- ✓ In cases where an original invoice is unavailable, the documentation provided to Metro Finance should include an explanation of the situation. This explanation should request that the copy of the invoice be accepted as the original.
- ✓ The Metro financial system payment address should agree with the vendor invoice. This helps to ensure that the payment is made to the appropriate payee and that vendor accounts reflect all payments.
- ✓ Mileage reimbursement forms should be completed in accordance with Metro policies and procedures. The mileage reports should only be used for reimbursement of vehicle use.
- ✓ Invoices should be paid so as to benefit from any discounts offered by the vendor.

- ✓ EMA should ensure payments do not include taxes Metro Louisville is exempt from (Kentucky State sales tax). In cases where an invoice includes sales tax, a note should be made deducting the exempt amount and the tax-exempt number assigned to Metro Government should be provided for the vendor.
- ✓ It is imperative that the public purpose of all expenditures be sufficiently documented. While the public purpose of some activity is inherently obvious (e.g., office supplies), other activity is not (e.g., refreshments, attendance at public events).

#### Adherence to contracts

- ✓ There are various thresholds for contracts/purchase orders addressed in Finance's policies and procedures. These thresholds depend on the type of good/service, and the dollar amount of the transaction. These requirements help ensure that economic benefits are obtained (e.g., contract rates, discounts), as well as legal expenditure limitations are adhered to. All key personnel should be aware of these limits, and comply with them for all transactions.
- ✓ All applicable payment documents should note the contracts/purchase order number as required by Metro policies and procedures. This applies to transactions involving any contract vendors, sole source providers and purchases exceeding designated thresholds (e.g., \$2,500). This helps monitor contract activity for payment limitations, adherence to established agreements, and allows funds to be encumbered/committed for future payment requirements.
- ✓ Responsible managers approving purchases and vendor payments should refer to any applicable contracts to ensure that all terms are adhered to.
- ✓ The Metro Purchasing Department should be contacted with questions regarding contracts. This includes issues associated with contract information available as attachments through the Metro Government financial system.

#### Policies and Procedures

- ✓ EMA should have a policies and procedures manual that contains a purchasing section that supplements the Metro Louisville's policies and procedures. These policies and procedures should include EMA staff authorized to initiate purchases, approve payment documents and forms that are used to process activity. This should be disseminated to all applicable personnel. Additional training of key staff may also be necessary to ensure consistency and uniformity in the procedures.
- ✓ EMA may want to consider the use of an internal purchase document form to help document the purpose and authorization of expenditures. This type of document could be required for certain types of expenditures (e.g., agency-determined payment threshold amounts).

## Asset Management

### Scope

Key department staff were interviewed in order to document the general policies and procedures associated with asset management procedures for the Emergency Management Agency (EMA). The scope of this review was to determine the adequacy of internal controls for the administration of capital and custodial assets, which includes how items are managed, secured, recorded and monitored. EMA uses the following reports to administer assets.

- **Metro Finance Capital Asset Report.** This report should include capital assets in accordance with Louisville Metro policies and procedures. A capital asset is property that meets certain capitalization thresholds. Asset information is reported by the responsible department and Metro Finance records the items on the financial system. This information is summarized and reflected on the Louisville Metro financial statements. The Metro Finance Capital Asset system recorded 154 items totaling approximately \$11.8 million for EMA as of March 2004.
- **EMA's Computers and Technology Equipment List.** This is a listing of information technology items and equipment that is reported by EMA to the Metro Risk Management division annually to help ensure proper insurance coverage.
- **Internal Department Lists.** Metro asset policies and procedures require items costing \$1,500 or more, but less than the capital assets threshold of \$5,000, be tracked as custodial assets. In addition to the original cost, item use and portability should be assessed. Highly mobile items easily converted to personal use, such as tools, radios and similar items should be tracked and monitored. EMA maintains custodial listings of various items to help manage and account for equipment. Records are maintained for computer equipment, 911 operations equipment and Emergency Operations Equipment (e.g., alert sirens located in the community).

A sample of eleven items was judgmentally selected from the lists and from physical selection of items in EMA locations. The items were physically verified and the lists were reviewed for completeness and accuracy. The following problems were noted.

### Observations

There were several problems noted with the management of assets. As a result, the internal control structure is weakened and its effectiveness impaired. Examples of weaknesses include the following.

- EMA does not maintain policies and procedures addressing the administration of assets. There is no coordination of asset information to ensure reports are complete and accurate.
- There is no formal reconciliation of the Metro Finance Capital Asset Report with other records maintained by EMA staff.
- There were several problems noted during the verification of assets with the records maintained to account for them.

- There were problems associated with the recording of assets on the Metro Finance Capital Asset report. Problems with these records impact the information reported on the Metro financial statements. In addition, these weaknesses diminish the reliability and accuracy of the system as a tool for monitoring assets.
  - There were cases in which the item descriptions were too vague to locate the asset or verify it with certainty (e.g., serial number not provided).
  - There was one case in which an item location was inaccurate.
  - There were three cases in which items were not listed on the Metro Finance Capital Asset report. In all cases, the EMA internal asset listing recorded values that exceeded the capital asset threshold documented in the Metro Finance policies and procedures.
- There were problems associated with the recording of assets on the EMA internal asset reports. These weaknesses lessen the reliability of the information EMA depends on to oversee custodial assets. While this may not impact financial reports, this information is useful to help account for items that may be portable or valuable even though they may not meet the capital asset cost threshold.
  - There were cases in which the item descriptions were too vague to locate the asset or verify it with certainty (e.g., serial number not provided).
  - A couple of items recorded did not list a dollar value.
  - The serial number for one item examined did not agree with the number recorded on the internal listing.
  - Three items examined were not recorded on the internal lists.
- There were a few inconsistencies noted while reconciling items to the Metro Risk Management List.
  - There were a couple of cases in which the item descriptions were too vague to locate the asset or verify it with certainty (e.g., asset or serial number not provided).
  - Two items examined were not recorded on the Risk Management list.

### **Recommendations**

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ While a few staff members may assist in gathering and providing information, one person should be assigned the responsibility of managing the agency's assets and maintaining the records. These responsibilities include the verification of the Louisville Metro capital asset list on at least an annual basis, and the reporting of additions / retirements as required.
- ✓ EMA should develop written policies and procedures for administering assets. These should supplement the Metro Government assets policies and procedures, and be distributed to all applicable EMA personnel.
- ✓ The asset records should be compared with physical items periodically to help ensure the completeness and accuracy of the information. This may be accomplished through spot checks of items or through a coordinated inventory of assets.

- ✓ Any changes in capital assets (e.g., additions, retirements, transfers) should be reported to Metro Finance in accordance with policies and procedures.
- ✓ Internal asset listings should be maintained with enough information to verify the physical asset and to reconcile to the Metro Finance list for applicable items. Specific information, such as serial number, model number, location, etc. should be included to help locate each item. In addition to replacement cost, the historical cost should be included to help determine the appropriate recording of items and depreciation calculations.
- ✓ To prevent an unnecessary exposure to an uninsured loss of equipment, the Risk Management List must consist of accurate information. The list should be verified on at least an annual basis, and the reporting of additions / disposals as required. The list should include asset numbers and serial numbers when applicable to allow for easier verification against other assets lists (e.g., Metro Finance, departmental internal list) and in identifying the item.
- ✓ Safeguarding of assets is the responsibility of all employees. Items with portability and attractiveness risks (e.g., laptop computers, cameras, cellular telephones) need to be properly accounted for at all times.

## Telephones / Cellular Phones

### Scope

The Emergency Management Agency's telephone procedures were reviewed through interviews with key personnel. The purpose of this review was to ensure that procedures are in place to verify that the monthly service charges are accurate, as well as to collect reimbursements from employees for personal long distance and cellular charges. The Emergency Management Agency's fiscal year 2004 budget for telephone services was approximately \$27,000.

A variety of tests were performed in order to examine telephone expenditures for the period July 1, 2003 through March 31, 2004.

- **Telephone Line Accountability.** This was accomplished by comparing phone numbers with service charges on a billing to an internal phone list maintained by EMA to ensure there were no charges for phones not assigned to them.
- **Long Distance.** This included examining long distance charges in order to verify that the reasons for all long distance calls were properly documented, and reimbursements were made for personal calls. Total long distance charges for the period July 2003 through January 2004 were approximately \$240, not including local long distance.
- **Cellular Telephones.** This included examining detailed cellular charges in order to verify that the reasons for all calls were properly documented, and reimbursements were made for personal calls. EMA also has custody of an inventory of cell phones that are available for loan to other Louisville Metro departments.

The following concerns were noted.

### Observations

There were several concerns noted with the administration of telephone and cellular phone procedures. As a result, the internal control structure is weakened and its effectiveness impaired. Specific problems include the following.

- There is not sufficient monitoring of telephone line accountability. It does not appear that an individual has been assigned the responsibility of monitoring phone line accountability. An internal phone list is maintained, but no documented reconciliation is performed in order to verify that line charges are appropriate.
- Cellular phone and long distance charges are distributed to employees, but there is no required documentation in order to verify business calls or to signify collection of reimbursements for personal calls.
  - Employees have the capability to dial long distance without restriction and are not required to log/document long distance calls. During the review of monthly charges, there were cases in which adequate information (e.g., billing notations) was not documented in order to determine the nature of telephone charges (e.g., personal/business long distance, cellular roaming).
  - Many of the EMA phones lines for employee use are located in the Emergency Operations Center work area and not assigned to a specific employee. This makes the determination of the individual responsible for charges more difficult.

- Louisville Metro departments are not charged for the use of “loaner” cell phones administered by EMA. This distorts the true cost of phone services for both EMA and the user departments.
- There are no documented internal policies and procedures regarding telephones and cellular phone administration or charges incurred by EMA staff.

### **Recommendations**

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Procedures should be implemented to ensure the monthly service charges are properly reviewed. Appropriate personnel should maintain and update an internal master phone list with phone numbers, location, and person (or purpose). This list should be verified to the monthly service bill on a periodic basis (at least quarterly). Any exceptions should be investigated and corrective action taken as necessary. This periodic review should be properly documented.
- ✓ The responsibility of monitoring telephone line accountability should be assigned to a specific individual. This individual should ensure that all monthly charges posting to the department appear proper.
- ✓ Any additional charges (e.g., long distance, directory assistance, collect calls, third party calls) on the monthly bills should be accounted for. To properly do so, the monthly bills should be distributed to the appropriate individuals.
- ✓ Each occurrence of an additional charge should be accounted for by having the individual note the reason as business or personal, and signing the bill. The bill, along with applicable reimbursement for personal charges, should be returned timely.
- ✓ The procedures should include measures to ensure all monthly bills distributed are returned timely.
- ✓ Employees that make calls that result in additional charges should consider using a log or form. This helps document the purpose of incurring the additional charge, and should be completed at the time the call is made. This is especially important since lag time for telephone bills is typically six to eight weeks. The individual can keep this until the monthly bill is reviewed and reimbursement made if necessary. This strengthens accountability since the individual’s memory is not relied upon to account for the charges.
- ✓ The documentation for the personal charges, along with reimbursement documentation, should be filed with the monthly billings.
- ✓ The feasibility of “blocking” services that incur additional charges should be explored in areas that won’t impact critical communications during emergency situations. For example, administrative phone lines may be restricted. Personnel who need long distance services as part of their job responsibilities can be given an access card with the stipulation that it is only for business purposes. This will not totally eliminate the need for the monthly reviews of the bills, but it will make the process less cumbersome and more efficient. In the case of telephone lines that require long

distance use in emergency situations (e.g., operations center), compensating controls may be necessary to ensure activity is properly monitored.

- ✓ Employees who have computer access should be encouraged to utilize the Internet to look up telephone numbers instead of using directory assistance.
- ✓ Louisville Metro policies and procedures require that each cellular phone user reimburse Metro Government for all personal usage of any government issued cellular telephone. This requires users to review the detailed billing each period to identify charges associated with personal use.
- ✓ All cellular telephone charges should be posted to financial accounts associated with the specific user division. This will help verify line charges and reflect actual departmental charges.
- ✓ Appropriate EMA personnel should develop written policies and procedures for telephone services to include long distance and cellular policies. These should supplement the Metro Government telephone services policies and procedures, and be distributed to all applicable personnel.

## Vehicles

### Scope

Key department staff were interviewed in order to document the general policies and procedures associated with vehicle management for the Emergency Management Agency (EMA). The purpose of this review was to determine if adequate procedures are in place to monitor charges for vehicle related expenditures and to verify that Louisville Metro Government policies and procedures are adhered to. During fiscal year 2004, five vehicles were assigned to EMA with a budget of \$24,600 for vehicle costs.

A vehicle list for EMA for April 2004 was obtained from Fleet Services personnel. A physical examination of vehicles was conducted to verify the accuracy of information recorded on the Fleet Services Vehicle Assignment Report. Additionally, the vehicle license plate was compared to the registration documentation to verify that information was current. The following concerns were noted.

### Observations

There were a few problems noted with the administration of vehicle management. As a result, the internal control structure is weakened and its effectiveness impaired. Specific problems include the following.

- There does not appear to be adequate monitoring and reconciliation of charges for EMA vehicles. While the vehicle coordinator may perform a cursory review, the following problems were noted.
  - There is no documented reconciliation of the Fleet Cost Distribution Report with supporting documentation (e.g., work orders). Additionally, the fleet management reports are not reconciled with the Metro financial system reports to ensure charges are accurate.
  - One of the vehicles examined was included on the Metro Fleet Management listing, but not included on the EMA internal agency vehicle list. EMA staff explained that this vehicle was removed from their department upon local government consolidation. According to Fleet Management staff, this vehicle is currently assigned to Facilities Management. Costs are still charged to EMA, which distorts the operating costs for both departments.
- There were a few issues noted regarding vehicle use policies and procedures.
  - EMA maintains two pool vehicles for staff members' official use. There is no process in place to sign out these vehicles for official use.
  - There are no internal policies and procedures for the administration of vehicles assigned to EMA.

### Recommendations

Appropriate personnel should take necessary action to address the issues noted. Specific recommendations include the following.

- ✓ Fleet Service's charge reports should be verified by comparing the costs reported to the corresponding source document (e.g., work orders, budgeted depreciation rates, gas receipts).
- ✓ Vehicle reports should be maintained by the vehicle coordinator and reconciled to the Metro financial statements.
- ✓ Fleet Service's monthly reports (e.g., fleet cost distribution) should be verified to the monthly financial statements on a consistent basis. This ensures the proper amounts are charged to the EMA budget.
- ✓ Any discrepancies found when reviewing reports should be investigated, properly documented, and reported to appropriate personnel.
- ✓ EMA personnel should follow up with Fleet Services regarding the vehicle listed on the Fleet Division Services vehicle listing that is no longer used by EMA. EMA should ensure the proper procedures are performed to transfer the vehicle from the EMA vehicle fleet and remove the applicable charges.
- ✓ An internal department vehicle assignment listing should be maintained independent of Fleet Management and should contain enough information (e.g., VIN, license plate, equipment number) to be used as a reconciliation tool.
- ✓ EMA should establish a formal policies and procedures manual for EMA vehicles. These policies should supplement Metro vehicle policies and procedures and include practices used to manage departmental vehicles (e.g., assignment and use of pool vehicles, responsibility for the verification of current vehicle use agreement for drivers). This helps ensure consistency in the management of the vehicle fleet and will ensure that policies and procedures are appropriately adhered to.
- ✓ EMA should distribute the internal vehicle policy and procedures manual to staff. It should be available for any staff to reference and would be a useful for training purposes.
- ✓ All vehicle assignments should be made in accordance with Fleet Services vehicle use policies and procedures. The usage class of vehicle (e.g., take-home, work use only) should coincide with its actual use to ensure insurance and tax issues are properly addressed.
- ✓ All employees using government vehicles should complete the forms required by Fleet Services policies and procedures. This helps to ensure drivers are properly licensed and are adequately covered for insurance purposes.

## Petty Cash

### Scope

The Emergency Management Agency (EMA) procedures for managing petty cash were reviewed through interviews with key personnel. There is one petty cash account authorized for EMA through Metro Finance for \$100. Internal Audit reconciled the EMA petty cash fund by verifying cash on hand and receipts. The following concerns were noted.

### Observations

There were several problems noted regarding the general administration of EMA's petty cash fund. Internal control structure is weakened and its effectiveness impaired. Specific problems include the following.

- The petty cash custodian did not reconcile at year-end as required by Metro Finance policies and procedures.
- There were a couple of concerns noted with the completeness of petty cash receipts.
  - The petty cash custodian did not sign/approve the receipt for one of the three examined.
  - The financial coding was not present on any of the receipts examined.
- EMA does not have internal policies and procedures that address the administration and use of petty cash.
- There was one concern to be addressed by the Metro Finance Department. The petty cash computer file was not updated with the current custodian as noted on the custodial petty cash form on file. Information was provided during this review so that Metro Finance could correct the EMA information recorded on the computer file.

### Recommendations

Appropriate personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ The individual who actually administers the account should be the petty cash custodian on record in Metro Finance.
- ✓ All accounts should be reconciled periodically and shortages/overages reported following normal policies and procedures.
- ✓ As required by Metro Finance policies and procedures, petty cash accounts should be reconciled in accordance with the fiscal year-end closing schedule.
- ✓ Care should be taken when distributing petty cash funds. Every employee that receives reimbursements from petty cash should sign an internal petty cash receipt. The custodian should record the proper financial coding and sign the receipt. These

signatures are an important part of the internal controls for petty cash funds. The vendor receipt should be attached to the petty cash receipt.

- ✓ All transactions should be reimbursed in a timely manner. This helps ensure that period costs are accurately recorded and that procurement policies are being adhered to.
- ✓ The custodian should ensure that the cash and receipts are stored together in a secure location, such as a locked drawer within the office.
- ✓ EMA should prepare internal policies and procedures to supplement Metro Finance procedures on petty cash. This should be made available to all personnel.
- ✓ Metro Finance should make every effort to maintain updated petty cash records, including the computer file used to monitor petty cash accounts.
- ✓ The purpose of petty cash funds is to allow agencies to make immediate incidental purchases in small amounts, not to exceed \$25. This fund should not be used to circumvent established purchasing policies and procedures.

## *Emergency Management Agency Response*

The response from the Emergency Management Agency Executive Administrator begins on the following page. It should be noted that the weaknesses recognized in this report are not attributable to the current EMA Executive Administrator, but he has been cooperative and taken responsibility in order to address the issues.

# MEMORANDUM

LOUISVILLE-JEFFERSON COUNTY  
METRO GOVERNMENT

LOUISVILLE METRO  
OFFICE OF INTERNAL AUDIT  
2004 NOV 29 PM 2:35

November 24, 2004

TO: Mike Norman  
Director, Internal Audit

FROM: Doug Hamilton *D Hamilton*  
Director, EMA & Metrosafe

RE: Change of Command Audit

Thanks for the time and expertise you and staff expended performing the change of command audit I requested in April 2004. As a whole, I agree with your opinions stated on page 3. There's no adequate fiscal oversight, revenue management is inadequate, monitoring of fiscal activity is weak, file management is not sufficient, segregation of fiscal duties is inadequate, and surprisingly, there's no functional operating policies and procedures. In retrospect, the elimination of the Business Manager's position beginning with FY 2004 was a poor decision. It was believed at the time that the current director and assistant director could manage the former duties, when in reality neither had the time, aptitude, nor training with the new financial management software to be proficient. Consequently, time compounded the matter and it worsened with the retirement of the director. Regardless, it's my responsibility and commitment to follow through with the spirit and intent of your findings.

Since April 2004, we've addressed a number of the issues you identified:

- I've assigned most budget monitoring matters to another person, I routinely monitor all revenue receipts.
- draft, bill, and follow up on requested reimbursements to the State and the Feds.
- As of this month, our Cabinet Secretary has advocated on our behalf to add a business manager function to the Public Protection cabinet for EMA, JCYC, MCJC, and MetroSafe. More than any action, this addition will address most of the recommendations contained in your report. This too, will affect our ability to adequately monitor grant's deliverables which will improve collection of outstanding revenues.
- In the interim, two of our personnel have sought additional training with LeAP, as have I.
- We've also sent two people for PeopleSoft time and labor training and have implemented that method of payroll with the previous pay period.

- Our LGR radio supervisor left abruptly at the end of May. The request to realign the duties and pay, recommended in June, will be implemented in December. We're seeking the assistance of LMPD Radio Services to assist in determining the "value" of our equipment and services. This reassignment of duties also affects the operations and accountability of the 911 functions. Once implemented, clear authority will rest with a supervisor to monitor revenues and expenditures of all the accounts. We've also moved to transfer all 911 accounts into the LeAP financial system, which should be complete by the end of the year.
- In December, we've scheduled a day for all employees to assist in identifying salvageable and surplus equipment throughout the agency and the 9 PSAPs we assist. We want to augment and reinforce an inventory completed on 11-24-04.
- Since July, I routinely circulate the 4 phone service bills we get each month to employees and supervisors, as well as "outside" persons we provide cell phones to, and have them reconcile each bill for appropriate use and reimbursement, if needed.
- The Community Foundation of Louisville account has been closed and receipted into miscellaneous revenues.
- Vehicle cost tracking, sign outs, inspections, and monitoring have been implemented. Assignments and use of vehicles are in compliance with Metro Fleet Services policies.
- The petty cash fund has been properly set up and documented for this fiscal year.