



Jerry E. Abramson  
Mayor

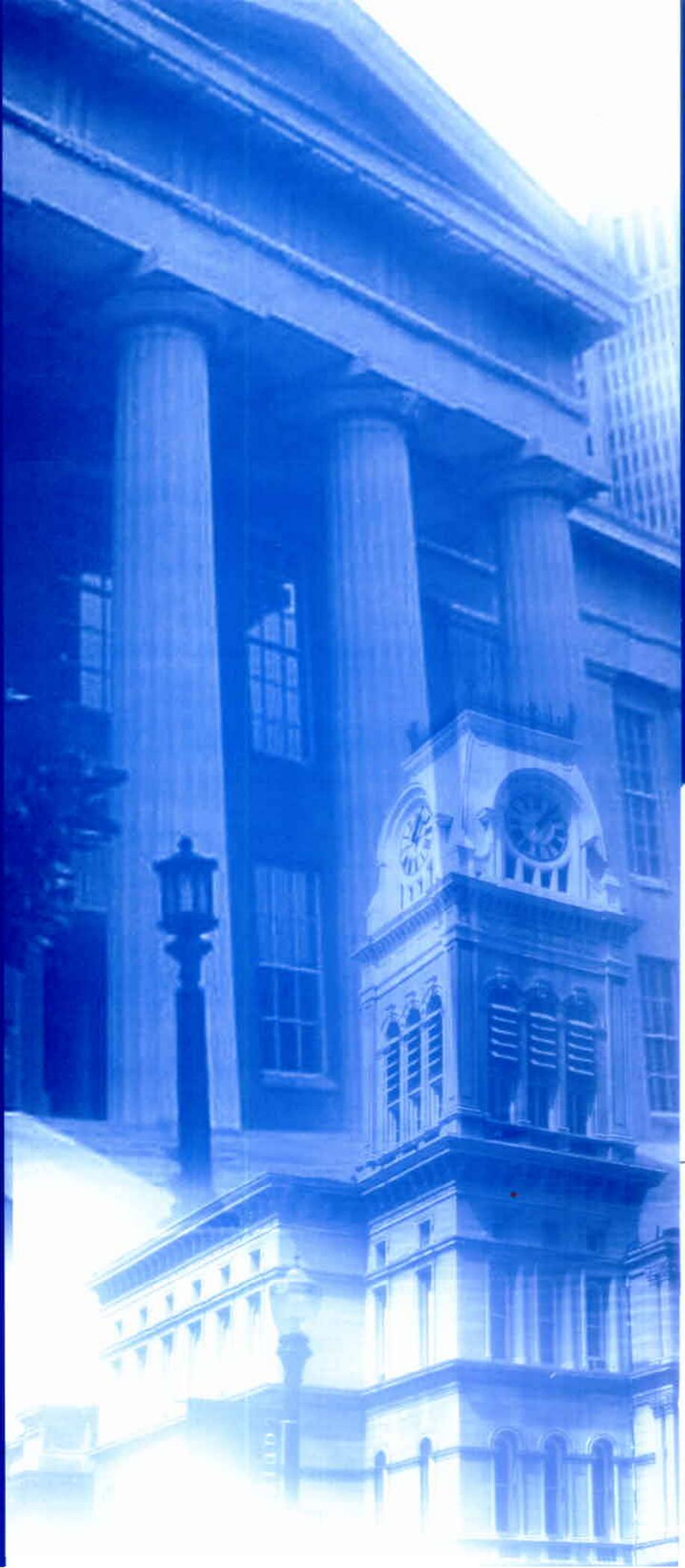
26 Member  
Metro Council

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

2004 Annual Report

January 2005



# Annual Report



## Office of Internal Audit

### 2004 Annual Report

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JERRY E. ABRAMSON  
MAYOR

KELLY DOWNARD  
PRESIDENT, METRO COUNCIL

LOUISVILLE, KENTUCKY  
OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA  
CHIEF AUDIT EXECUTIVE

## Transmittal Letter

January 10, 2005

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

### **Subject: 2004 Annual Report**

Dear Mayor Abramson,

Enclosed is the 2004 Annual Report for the Office of Internal Audit. This summarizes the services provided during calendar year 2004. The Office of Internal Audit's Charter requires the presentation of this report within 30 days of the calendar year-end.

It was certainly a challenging year, and there is still plenty of work to do. We have continued our efforts to assist in building a government that is responsive and accountable to its citizens. Some of the highlights from this past year include:

- The use of the risk-based audit plan has been successful. This helps focus audit resources on critical activities and areas. This includes enterprise-wide activities as well as former County Agencies and entities. The risk-based approach supports the philosophy of adding value and getting more "bang for the buck". The plan is updated annually.
- The use of an information technology consultant has been beneficial. IT audits of the major enterprise applications (PeopleSoft, LeAP, MIDAS) were performed. An IT risk assessment is being prepared to help focus the IT audit resources on the critical areas.
- Through education and outreach, we have continued developing partnerships and cooperative relationships with our clients. This allows us to provide more services through assisting as procedures and processes are developed. Ultimately, this helps provide more quality services in an accountable manner.

The listing of activities is sorted by Department, and then by the particular area / focus. Not all of the activities are complete, and some are pending action by others. Unless noted, the Departments have been responsive to our recommendations. However, some recommendations may not yet be fully implemented. The type of core service provided is noted. A brief definition of these core services is as follows:

- **Assurance** - Reviewing operations, policies, and procedures to ensure that the appropriate control structure is in place and that business risks are considered.
- **Consulting** - Providing services to help address specific issues and concerns, which may not necessarily be high-risk, but do add significant value to clients.
- **IT Audit** - Ensuring that electronic information is processed as intended, data integrity is maintained, and the control structure is assessed.
- **Integrity** - Investigating allegations regarding employee misconduct and / or non-violent criminal acts involving Metro government resources.

I look forward to continuing providing services that help ensure a responsive, accountable government. If you have any questions, or would like to discuss this report in more detail, please let me know.

Respectfully submitted,



Michael S. Norman, CIA  
Chief Audit Executive

cc: Louisville Metro Council Members  
Deputy Mayors  
Cabinet Secretaries

# Annual Report

## Calendar Year 2004

Agency / Area	Status	Issues	Core Service
<b>Air Pollution Control</b>			
<b>Revenue Management</b>	Ongoing		Assurance
<b>Animal Services</b>			
<b>License Fee Revenue</b>	Complete	Computer system (Atracks), segregation of duties, and monitoring / reconciliation are inadequate. Another Metro department processes some activity resulting in weak accountability.	Assurance
<b>PSC Audit Clause</b>	Complete	Consulted regarding change of audit language. No objection to change removing language regarding time sheets and expenses, contract deliverable is a feasibility report. Price is based on project deliverable only, not time or expenses.	Consulting
<b>Board of Elections</b>			
<b>Poll Worker Payments</b>	Ongoing		Assurance
<b>Council</b>			
<b>10th Street Cardinals Grant</b>	Ongoing	Monitor court-ordered restitution payments to ensure properly received. Assisted County Attorney in obtaining garnishment order from Court. For 2004, approximately \$2,850 was received, leaving balance of \$4,480.	Integrity
<b>Employee Turnover</b>	Complete	Consulted regarding employee turnover to ensure activity / exposures had been addressed and reviewed.	Consulting

<b>Agency / Area</b>	<b>Status</b>	<b>Issues</b>	<b>Core Service</b>
<b>Council</b>			
<b>Fiscal Administration Guidance</b>	Complete	Consulted and provide fiscal policies and procedures, and best practices guidance.	Consulting
<b>Neighborhood Development Fund Grants Monitoring</b>	Complete	Discussed process for monitoring Neighborhood Development Fund grants, and made recommendations to ensure sufficient accountability.	Consulting
<b>Operating Center Expenditures</b>	Complete	Consulted regarding appropriateness of use of public funds for proposed activity, as well as use of operating center or neighborhood development fund. Total of 7 different situations addressed throughout the year.	Consulting
<b>Position Funding Data</b>	Complete	Attempted to provide data regarding sources of funding for Louisville Metro positions.	Consulting
<b>County Attorney</b>			
<b>Drug Court Revenue</b>	Complete	Monitoring could be improved, inadequate segregation of duties, business practices should be improved, computer system should be evaluated.	Assurance
<b>Emergency Management Agency</b>			
<b>Fiscal Administration</b>	Complete	Revenue is not adequately administered, monitoring could be improved, inadequate segregation of duties, lack of documented policies and procedures.	Assurance

<b>Agency / Area</b>	<b>Status</b>	<b>Issues</b>	<b>Core Service</b>
<b>Emergency Medical Services</b>			
<b>Billing &amp; Collection</b>	Complete	Attempted to identify best practices for billing and collection function. Unable to find definitive guide for this area. No recommendation made.	Consulting
<b>Cost Data Compilation</b>	Complete	Compiled cost data for EMS and Fire / Rescue EMS for use by consolidation task force.	Consulting
<b>Enterprise</b>			
<b>10 Cash Handling Principles</b>	Complete	Prepared and distributed cash handling principles to all business managers, SEAD participants, and others.	Consulting
<b>2004 Gross Payroll Analysis</b>	Ongoing		Assurance
<b>Accounts Payable Threshold Compliance</b>	Ongoing		Assurance
<b>Louisville Central Community Center Inc. Grants</b>	Complete	Administrative confusion regarding former City Department of Neighborhood grants. Grant expenditures allowed. Current Louisville Metro monitors will work with grantee to ensure issues are addressed for future grant funds.	Assurance
<b>Metro Solutions - Vacant Properties</b>	Complete	Participated in a Metro Solutions workout group.	Consulting
<b>PeopleSoft Upgrade</b>	Ongoing	Participate in upgrade meetings (version 8.8, e-modules, time and labor).	Consulting
<b>PeopleSoft Upgrade - Steering Committee</b>	Ongoing	Participate as ex-officio member.	Consulting
<b>PeopleSoft Users Group</b>	Ongoing	Participate in biweekly Users Group meetings.	Consulting
<b>Utility Expenditures</b>	Ongoing		Assurance

<b>Agency / Area</b>	<b>Status</b>	<b>Issues</b>	<b>Core Service</b>
<b>Facilities Management</b>			
<b>Belle of Louisville Management Contract</b>	Complete	Several opportunities to improve compliance with contract provisions. Issues within contract language need to be clarified.	Assurance
<b>Belle of Louisville Operations</b>	Ongoing		Consulting
<b>JP Morgan / Bank One Accounts</b>	Complete	Attempted to identify source of funds / purpose of accounts. It appears accounts may be related to environmental conservation equipment. Recommended transferring balance to general fund.	Consulting
<b>Louisville Gardens</b>	Ongoing		Assurance
<b>Revenue Management</b>	Complete	All revenue sources could not be definitively identified, contracts are not readily available, no listing of inventory for revenue producing activity, no documented policies and procedures.	Assurance
<b>Finance</b>			
<b>Crime Coverage Policy</b>	Complete	Provided information for crime coverage questionnaire for RFP.	Consulting
<b>Enterprise Business Processes</b>	Complete	Review of Payroll, General Ledger, Accounts Payable / Travel, Assets, Accounts Receivable, and Budget processes. Opportunities for strengthening controls identified.	Assurance
<b>GASB 39 - Foundations, Boards</b>	Complete	Assisted Finance and State Auditor in review and identification of related organizations that may require inclusion in Fiscal Year 2004 annual audit report due to GASB 39.	Consulting
<b>Grants Procedures</b>	Complete	Consult on revisions to Grants policies and procedures, focusing on financial reporting requirements.	Consulting
<b>Lockboxes</b>	Ongoing	Consulted regarding use of lockboxes for loan processing functions for various Louisville Metro Agencies.	Consulting

Agency / Area	Status	Issues	Core Service
<b>Finance</b>			
<b>Marine Hospital - "Off books" Account</b>	Complete	Consulted regarding necessity of Health Department using "off books" account for funds awarded to Board of Health for Marine Hospital restoration.	Consulting
<b>Petty Cash</b>	Ongoing	Consult on petty cash accounts, which cumulatively exceed \$100,000.	Consulting
<b>Printing Contract</b>	Complete	Quotes / bids not obtained when required, standard items not always used, quantities received may differ from order, contract structure could be improved.	Assurance
<b>Procurement Cards</b>	Ongoing	Consult on use of procurement cards for Metro employees and departments.	Consulting
<b>Tax Verification</b>	Complete	Consult regarding performance of Sheriff's tax settlement (quietus) for 2004.	Consulting
<b>Year-end Closing</b>	Complete	Reviewed draft year-end closing instructions and made suggestions / comments.	Consulting

### Fire

<b>CPR Deposits</b>	Ongoing	IA could not determine status of missing revenue deposits based on available information. Departments reconciled activity and contacted customers to determine status of deposits. The circumstances cannot be definitively explained but appears deposit was misplaced. Department will follow-up to attempt to collect revenue from customers.	Integrity
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### General Services Administration-Fleet

<b>Fleetwave System</b>	Complete	Consulted regarding the management and retention of vehicle work orders in relation to new computer system.	Consulting
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Agency / Area	Status	Issues	Core Service
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### General Services Administration-Fleet

<b>Use of Metro Vehicles</b>	Complete	Provided guidelines for evaluating requests for use of Metro vehicles for transporting employees to holiday luncheon.	Consulting
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### Health

<b>Billing and Collection Division (Follow-up)</b>	Ongoing		Assurance
<b>Cash Collection Discrepancy</b>	Ongoing	Discussed proper course of action in response to missing funds of approximately \$270 at Middletown Site. Appears controls functioned properly but procedures were not followed.	Consulting
<b>Childhood Lead Grant</b>	Ongoing	Program Coordinator pled guilty to theft, sentenced to 2 months imprisonment, 4 months home detention, 2 years probation, and restitution of \$29,158. Began monitoring restitution payments. Centers for Disease Control should ultimately determine allowable activity for questionable costs.	Integrity
<b>Immunization Team</b>	Complete	Employee admitted theft and pled guilty to misdemeanor. Restitution of \$560 ordered, with agreement never to seek employment with Louisville Metro Government. Reviewed procedural changes to ensure adequate controls implemented. Assisted in ensuring restitution received.	Integrity
<b>MORE Methadone Clinic - Revenue</b>	Complete	Monitoring of activity could be improved to address inherent risks, computer system and segregation of duties are not adequate.	Assurance

### Housing

<b>Handicap Ramp Program</b>	Pending		Integrity
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<b>Agency / Area</b>	<b>Status</b>	<b>Issues</b>	<b>Core Service</b>
<b>Human Resources</b>			
<b>Police Longevity Calculation Methodology</b>	Complete	Consulted regarding calculation for removing longevity from base hourly rate for former County Police officers.	Consulting
<b>Recruitment</b>	Complete	Consulted regarding changes in recruitment area.	Consulting
<b>Supervisor Training and Development</b>	Ongoing	Presentation for supervisor training course (SEAD).	Consulting
<b>Human Services</b>			
<b>Emergency Assistance Fund</b>	Complete	Use of ancillary bank account, no functional policies and procedures, monitoring and reconciliation could be improved, record systems could be enhanced.	Assurance
<b>External Agency Grants</b>	Complete	Provided bookkeeping "best practices" for DHS to distribute at technical assistance sessions for potential grantees.	Consulting
<b>Presbyterian Community Center</b>	Complete	Discussed issues / concerns and corrective action approach the Presbyterian Community Center Board is following.	Consulting
<b>Inspection, Permits and Licenses</b>			
<b>ABC License Audit Methodology</b>	Complete	Consulted regarding audit methodology used to review Restaurant licenses.	Consulting
<b>Kentuckiana Works</b>			
<b>Kentuckiana College Access Center</b>	Ongoing	Consulted regarding plan to form 501(c)(3) for Kentuckiana College Access Center and perform fiscal administration / accounting "offbooks" instead of using Metro's financial system.	Consulting

<b>Agency / Area</b>	<b>Status</b>	<b>Issues</b>	<b>Core Service</b>
<b>Mayor's Office</b>			
<b>Performance Measures</b>	Complete	Consulted with external consultants regarding development of performance measures.	Consulting
<b>Metro Development Authority</b>			
<b>METCO Loan Processing</b>	Ongoing	Consulted regarding desire to transfer loan processing functions to Metro Development Authority from Finance, as well as need for new loan software.	Consulting
<b>MetroSafe</b>			
<b>Vendor Complaint</b>	Complete	Process followed was proper, it did not result in favoritism of one vendor.	Consulting
<b>Neighborhoods</b>			
<b>Brightside - Stock Donation</b>	Complete	Provided information regarding proper handling / processing of donation of stock. Focus on conversion to cash and valuation for donor.	Consulting
<b>Gallapoolooza</b>	Complete	Provided GASB 39 information regarding component units and guidance regarding Neighborhoods' responsibilities for financial accountability. Discussed issues regarding financial accountability / memorandum of agreement.	Consulting
<b>Weed and Seed Grant</b>	Complete	Discussed process for reimbursing Metro Police for overtime associated with the grant.	Consulting
<b>Parks</b>			
<b>Community Centers</b>	Pending		Integrity

<b>Agency / Area</b>	<b>Status</b>	<b>Issues</b>	<b>Core Service</b>
<b>Police</b>			
<b>Narcotics Disposal - April 9, 2004</b>	Complete	None.	Assurance
<b>Narcotics Disposal - September 17, 2004</b>	Complete	None.	Assurance
<b>Public Works</b>			
<b>Impoundment Lot</b>	Complete	Provided documentation of procedures used at impoundment lot to assist in drafting of new policies and procedures.	Consulting
<b>Parking Meter Bagging Revenue</b>	Complete	Consulted regarding handling of revenue for permits for bagging parking meters. Risk exposures have been addressed.	Consulting
<b>Professional Service Contracts</b>	Complete	Monitoring of activity is inadequate, files do not contain sufficient information, functional policies and procedures not provided for staff. Review covered fiscal years 2002 & 2003.	Assurance
<b>Purchasing</b>			
<b>Auction of Surplus Items (on-line)</b>	Complete	New process reviewed. Opportunities for strengthening control structure, especially in segregation of duties, monitoring and reconciliation, and policies and procedures.	Assurance
<b>Revenue Commission</b>			
<b>Internal Audit Function</b>	Complete	Discussed management letter comment regarding internal audit function, and ability of Office of Internal Audit to provide these services.	Consulting

Agency / Area	Status	Issues	Core Service
<b>Solid Waste Management</b>			
<b>Waste Management District License Fee Revenues</b>	Complete	Fees may not be strictly administered in accordance with guidelines, inadequate segregation of duties, monitoring and reconciliation. Some payments and deposits untimely, no documented policies and procedures.	Assurance
<b>Strategic Planning</b>			
<b>Grants Steering Committee</b>	Ongoing	Participate as ex-officio member.	Consulting
<b>Technology</b>			
<b>Cellular Telephones</b>	Complete	Investigated feasibility of paying allowance to cellular telephone users instead of providing Metro owned phones and service. Information provided to Telephone Services for further study.	Consulting
<b>Enterprise Business Application - LEAP (Oracle)</b>	Complete	Application controls, database security and control inadequate. General controls need improving.	IT Audit
<b>Enterprise Business Application - MIDAS (Hansen)</b>	Complete	General computer controls, application controls, database and operating system inadequate.	IT Audit
<b>Enterprise Business Application - Peoplesoft</b>	Complete	Application controls, database security and control, operating system security and controls, and general controls inadequate.	IT Audit
<b>MIDAS system</b>	Ongoing	Coordinated user meeting to begin process of evaluating adequacy of MIDAS functionality for Louisville Metro needs.	Consulting
<b>Security Policies</b>	Complete	Reviewed proposed security policies using CoBIT framework as guide. Policies appear to have addressed major security issues but concern if resources available to enforce the policies.	Consulting

<b>Agency / Area</b>	<b>Status</b>	<b>Issues</b>	<b>Core Service</b>
<b>Technology</b>			
<b>Staff Augmentation Proposals</b>	Ongoing	Participate as ex-officio member of team evaluating proposals for contract.	Consulting
<b>Waterfront Development Corporation</b>			
<b>Frightliner - Profit Sharing</b>	Complete	Reviewed revenue / expense analysis from vendor to verify amount due.	Consulting
<b>Youth Center</b>			
<b>State Reimbursements</b>	Complete	Monitoring of activity is inadequate, activity is not reported or processed efficiently and effectively, functional policies and procedures not provided for staff.	Assurance
<b>Technology General Controls</b>	Complete	No documented policies and procedures for general controls. No documented disaster recovery plan. Little or no monitoring of end-user processing. Missing vendor support / warranty information for one system.	Assurance
<b>Zoo</b>			
<b>Fiscal Administration</b>	Ongoing		Assurance
<b>Management Transition - Director's Retirement</b>	Complete	Advised interim Director regarding issues to address during transition.	Consulting