



Jerry E. Abramson  
Mayor

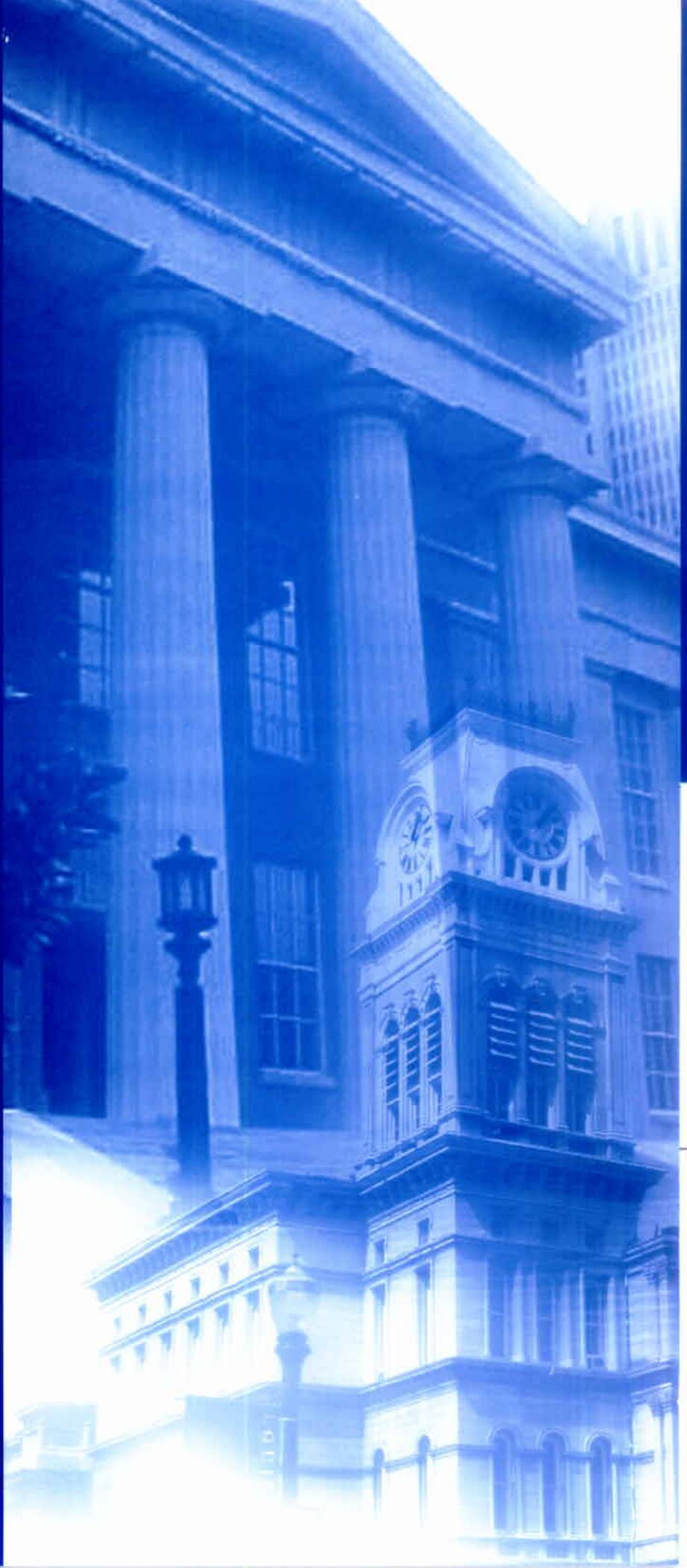
26 Member  
Metro Council

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

Community Action  
Partnership

Fiscal Administration



# Audit Report

Office of Internal Audit

## Community Action Partnership

### Fiscal Administration

July 2005



Community Action  
Partnership

Fiscal Administration

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## **Transmittal Letter**

July 15, 2005

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

### **Re: Audit of Community Action Partnership Fiscal Administration**

#### **Introduction**

We have examined the operating records and procedures for fiscal activity administered by the Community Action Partnership. The primary focus of the audit was the operational and fiscal administration of activity in the following areas: payroll, grants, purchases, assets, revenue, and petty cash. This included how Community Action Partnership (CAP) processes, records, and monitors the activity. This audit was requested by the interim Director of CAP.

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:

- Achievement of business objectives and goals
- 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.

### Scope

The operating procedures for administering business 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.

### Opinion

The internal control rating for each area reviewed is on page 5. 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 there are opportunities for improving the internal control structure for CAP fiscal activity. There were some specific problems noted that indicate the internal control structure could be more effective. Examples of the problems include the following.

- **Payroll.** The payroll entry process is very manually intensive. Numerous entries have to be keyed in order to allocate expenses to various grant programs. This is very time consuming and inefficient. It greatly increases the risk for keying errors, which could ultimately result in inappropriate pay or inaccurate grant reports.
- **Grants.** Some compliance issues were noted regarding the timeliness of CAP's grant report submission. CAP is primarily funded through grant awards with specific reporting requirements. Non-compliance with grant requirements could result in inaccurate or delayed processing of activity. In more serious instances, non-compliance could result in loss of grant funding.
- **Financial Monitoring.** Some concerns were noted regarding the monitoring and reconciliation of financial activity. Specifically, formal reconciliations are not documented.
- **Policies and Procedures.** CAP does not have documented policies and procedures regarding business processes. This lack of documentation increases the risk of non-compliance with intended procedures, as well as non-compliance with policy. This can also lead to inconsistencies and inefficiencies with processing.

The CAP Interim Director should be commended for proactively requesting this review. Implementation of the recommendations in this report will help improve the internal control structure and effectiveness of CAP's fiscal activity.

**Corrective Action Plan**

The Community Action Partnership's corrective action plan demonstrates a commitment to addressing the issues to ensure sound fiscal administration of activity. The corrective action plan is included in this report as responses in the Observations and Recommendations section. We will assist CAP as necessary to ensure the corrective actions are effective.

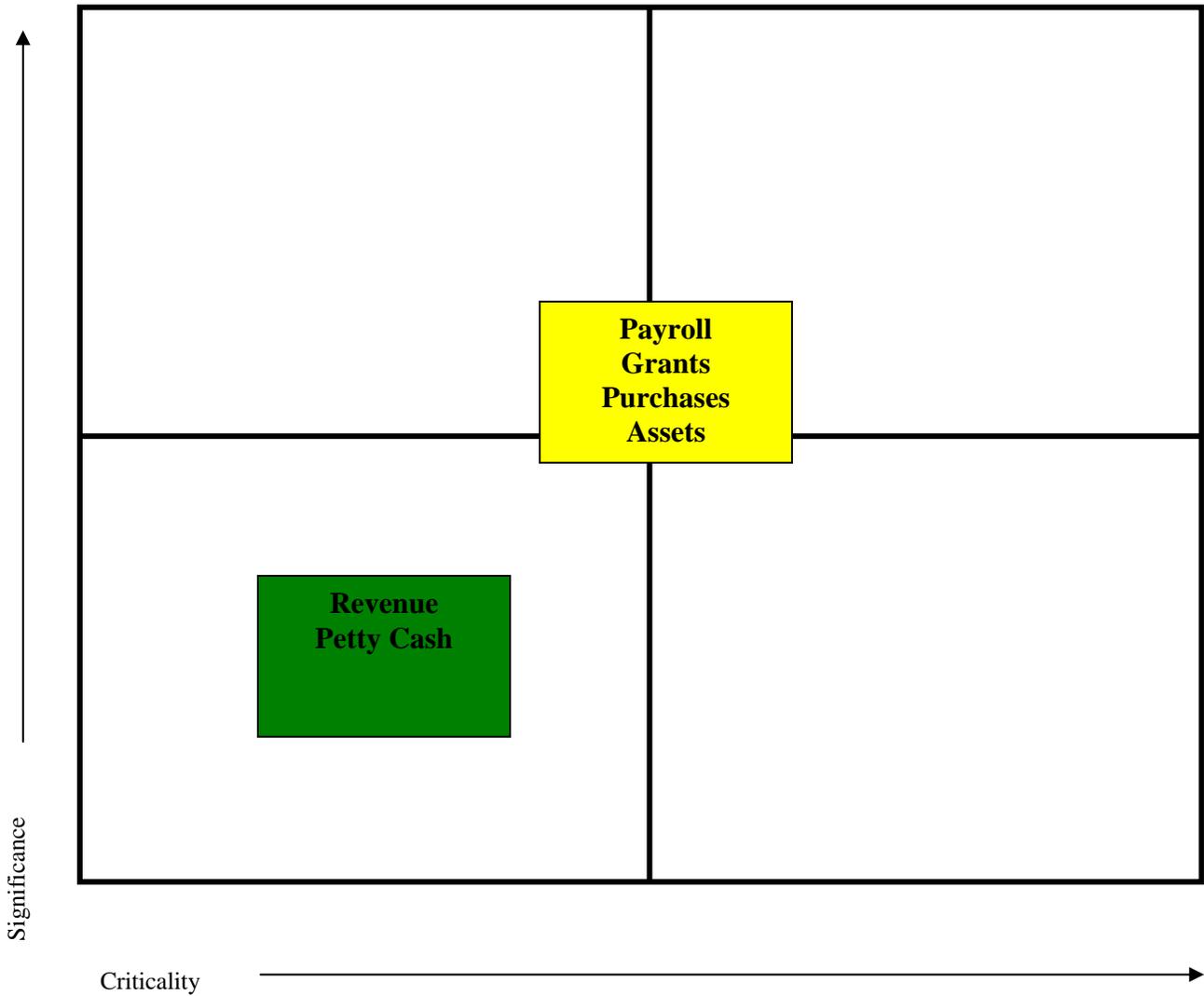
Sincerely,



Michael S. Norman, CIA  
Chief Audit Executive

cc: Louisville Metro Council Audit Committee  
Louisville Metro Council Members  
Deputy Mayors  
Secretary of the Cabinet for Health & Family Services  
Director of Community Action Partnership

**Internal Control Rating**



<i>Legend</i>			
<b><u>Criteria</u></b>	<b>Satisfactory</b>	<b>Weak</b>	<b>Inadequate</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.

## **Summary of Audit Results**

### **Background**

The Louisville Metro Community Action Partnership (CAP) develops and coordinates programs to combat poverty-related issues that affect the citizens of Louisville Metro. Through the Work Readiness, Family Assistance, and Seniors in Service divisions, CAP offers services and programs for lower-income residents of all ages throughout the community.

The fiscal year 2005 budget for CAP is approximately \$5.3 million. This is mostly comprised of Federal and State funds, along with a small amount of Louisville Metro General Fund appropriations.

The interim Director of CAP requested this audit, and is not responsible for the weaknesses noted in this report.

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

See Observations and Recommendations section of this report.

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

The Office of Internal Audit previously audited the Community Action Partnership's business activity in September 1996. 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 June 6, 2005. Attending were Kimberly Bunton and Tonia Phelps representing CAP; Kimberly Bates, Mary Ann Wheatley, and Michael Norman representing Internal Audit.

The views of the CAP officials are included as responses in the Observations and Recommendations section of the report. The responses indicate a commitment to addressing the issues noted.

## Observations and Recommendations

### Payroll

#### Scope

The Community Action Partnership's (CAP) payroll procedures were reviewed by interviewing key personnel. CAP had 46 employees, consisting of 28 full-time and 18 temporary/seasonal employees. The annual budget for fiscal year 2005 personal services totaled \$1,847,500; which is 35% of the total operating budget.

The pay period ending February 26, 2005 was examined to determine the adequacy of procedures and the adherence to policies and procedures. The entire population of CAP employees was selected for review (excluding Foster Grandparents). All records pertaining to the payroll (employee time sheets, adjustment forms, payroll reports, etc.) were examined. The following problems were noted.

#### Observations

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

- Most CAP employees are setup in the payroll system on a schedule; meaning only exceptions to regular hours need to be keyed. However, the employees' time has to be *manually* input in the payroll system so that expenses are charged to appropriate grant programs. This requires numerous lines of payroll entry for each individual, which is very time consuming and inefficient. It also greatly increases the risk for keying errors, which may result in inappropriate pay or inaccurate grant reports. *CAP has been consulting with the Metro Payroll division to work on a solution for this weakness.*
- CAP does not have documented policies and procedures regarding payroll processing. This lack of documentation increases the risk of non-compliance with intended procedures, as well as non-compliance with policy. This can also lead to inconsistencies and inefficiencies with payroll processing.
- There is no mechanism in place to ensure the Personnel Clerk IV has received all employee timesheets for processing. A missing timesheet could easily go undetected since they are not being tracked. Since most CAP employees are scheduled for automatic standard pay, this could result in inappropriate pay (i.e. pay for standard hours when the employee may not have worked some or all of the period).
- It appears only one individual has the system role/responsibility to approve time for CAP employees. Since the payroll system does not allow an employee to approve his/her own time, it would be necessary for someone outside of CAP to approve the 'approver's' time. For the period reviewed, a Payroll Technician in the Finance Payroll Division approved the approver's time.

### **Recommendations**

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

- ✓ CAP personnel should continue to consult with the Metro Payroll division to determine the most efficient manner to record CAP employees' payroll. Ideally, the feasibility of the payroll system automatically allocating payroll expenses to various accounts should be explored. This would decrease the number of manual entries needed to allocate expenses, thereby greatly improving efficiency and reducing the risk of keying errors.
- ✓ Written policies and procedures should be developed to include all pertinent information related to payroll processing, to include recording and monitoring functions. The manual should include sufficient detail for each job duty performed, copies of forms used, and the policies followed in the processing of activity (i.e. time calculations, required signatures, when timesheets are due, corrections, leave requests, etc.). 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.
- ✓ CAP should create a mechanism (e.g. checklist) to ensure employees submit a timesheet each pay period. At a minimum, the mechanism should include all scheduled employees so as to lessen the risk of inappropriate automatic pay.
- ✓ Management should consider allowing additional CAP employees the system security access to approve time for their agency. This would allow for sufficient internal resources, that have direct access to source documents (i.e. timesheets), to approve time. It also would allow for sufficient backup in the absence of routine approvers.
- ✓ Care should be taken to ensure all timesheets are complete and accurate. This includes verifying the employee and a supervisor have signed the timesheets, hours are calculated correctly, policies are adhered to, etc.
- ✓ Support documentation should be obtained for any deviations in an employee's standard hours/pay. The deviation should be reported to appropriate agencies (i.e. Human Resources, Payroll, Risk Management). This will help ensure leave accruals and benefits are properly administered, as well as ensure any possible liability issues are addressed.
- ✓ An adequate monitoring system should be in place to ensure employee payroll time is input correctly and expenses are distributed appropriately.

### **Community Action Partnership Response**

Community Action Partnership (CAP) concurs with these recommendations and will take the necessary steps to address each issue. Policies and procedures will be written to ensure complete and accurate timekeeping, the use of an employee checklist and the maintenance of supporting documentation. It should be noted that the current timekeeper does take care in reviewing timesheets as they are submitted and has instituted a practice of returning timesheets that are incomplete or inaccurate to the employee and/or supervisor for correction. It should also be noted that expense

distribution reports are reviewed on a regular basis to verify the employees' time has been allocated appropriately.

## Grants

### Scope

The Community Action Partnership's (CAP) procedures for grant management were reviewed through interviews with key personnel. The review focused on the general administration of grant activity. Additionally, a compliance review was conducted based on the guidelines established in the Federal Office of Management and Budget (OMB) Circular A-133 (March 2004). Individual compliance supplements, based on the OMB Circular A-133, are available for specific grants. These supplements provide audit procedures that were used during the performance of this review. Several grant management issues are incorporated into this type of compliance review (e.g., allowable costs, eligibility, reimbursements, cash management, periodic reporting).

CAP administered the following federally funded programs during the audit period.

<i>Name</i>	<i>Amount</i>	<i>Agreement Number</i>	<i>Effective Period</i>
<b>Community Services Block Grant</b>	\$1,628,272	M-04197039	7/1/2004 - 6/30/2005
<b>Low Income Home Energy Assistance Program</b>	\$1,312,870	M-04237132	7/1/2004 - 6/30/2005
<b>Summer Food Program</b>	\$711,248	056W45999SU	6/1/2004 - 8/6/2004
<b>Residential Energy Assistance Challenge</b>	\$419,062	M-04237132	6/1/2004 - 6/30/2005
<b>Foster Grandparents</b>	\$389,488	03SFSKY002	1/1/2003 - 12/31/2004
<b>Retired Senior Volunteer Program</b>	\$145,653	03SRSKY003	1/1/2003 - 12/31/2004
<b>Kentucky Seniors Saving Medicare</b>	\$43,261	90AM2448	7/1/2004 - 6/30/2005

A sample of twenty expenditures from July 1, 2004 through February 28, 2005 was examined. The sample included payments for goods/services, employee reimbursements, out-of-town travel and payroll. The transactions represented charges to the various funding sources for the department. The supporting documentation and activity reports were reviewed to assess compliance with applicable guidelines. The Low Income Home Energy Assistance Program was tested and included in the fiscal year 2004 Louisville Metro Single Audit Report; therefore grant compliance was not assessed for this program as part of this review. The following concerns were noted.

### Observations

There were some problems noted in Community Action Partnership's grant activity. As a result, the internal control structure is weakened and its effectiveness impaired. Examples include the following.

## Grant Administration

- A couple of concerns were noted regarding the monitoring and reconciliation of financial activity. Inadequate monitoring could result in inaccurate or unallowable expenditures or reimbursement requests. This increases the risk associated with potential increased costs to Metro Government or hindering the delivery of intended services.
  - There was no formal documented financial reconciliation performed during the review period. CAP staff explained that financial information was routinely distributed to responsible managers for cursory review and the Business Office was contacted to correct any errors detected. During this review, CAP implemented a Monthly Review and Verification Document that will be used to document the performance of financial statement reviews.
  - Currently, CAP grant financial reports are not being submitted to Metro Finance for review prior to submission to the grant provider. One of the intended roles of the Metro Finance Grants division is to review grant reports to help ensure financial information reconciles to the Louisville Metro financial system. CAP explained that this process was further delaying the timely submittal of activity reports.
- The actual grants for the Foster Grandparent and Retired Senior Volunteer Program were not awarded for the period January 2005 through December 2005 until April 2005. CAP was incurring charges in accordance with the anticipated awards, but was not able to request reimbursements prior to the award actually being provided. These delays were not due to circumstances attributable to CAP. The inability to request reimbursements required that Louisville Metro resources were used to fund activity for a longer period than normally required for a reimbursement-based award.

## Grant Compliance

- CAP is primarily funded through grant awards with specific reporting requirements. Non-compliance with grant requirements could result in inaccurate or delayed processing of activity. In more serious instances, non-compliance could result in loss of grant funding.

Some compliance issues were noted regarding the timeliness of CAP's grant report submission. Similar problems were noted for the Low Income Home Energy Assistance Program (LIHEAP) in the fiscal year 2004 Single Audit Report for the Louisville Metro Government.

- Several reports did not appear to have been submitted in accordance with grant guidelines. The following specific examples were noted as having not been submitted timely.
  - Retired Senior Volunteer Program - Federal Cash Transaction Report 272 for the first and second quarters of fiscal year 2005.
  - Community Services Block Grant - Monthly Invoices for July, August, September, October, November 2004 and March 2005.
  - Foster Grandparents - Federal Cash Transaction Report 272 for the first and second quarters of fiscal year 2005.
  - Foster Grandparents - Financial Status Report 269 for the first quarter of fiscal year 2005.

- Kentucky Seniors Saving Medicare - Performance Report for the grant's first period (1/1/04-6/30/04) and second period (7/1/04-12/31/04).
- The timeliness of submission could not be assessed for some grant reports. This was due to missing information (e.g., report not signed or dated when prepared/submitted). CAP staff explained these problems were likely attributable to clerical oversights. Timeliness could not be determined for the following reports.
  - Community Services Block Grant - Monthly Invoice for December 2004.
  - Kentucky Seniors Saving Medicare - Financial Status Rpt 269 for the first and second quarters of fiscal year 2005.

### Recommendations

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

#### Grant Administration

- ✓ 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.
- ✓ Routine supervisory review should be performed to assess the completeness of files and the accuracy of the activity, including the adherence to guidelines. These reviews should be documented and signed by the reviewer. Compliance with requirements is extremely important considering the fact that CAP activity is primarily funded through grant awards.
- ✓ Grant records should be periodically monitored to confirm that files are maintained appropriately.
- ✓ 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).
- ✓ While certain types of delays may be unavoidable, Louisville Metro Departments should ensure grant requests are complete, accurate and submitted timely so that the award process can be processed as quickly as possible. This would help avoid the extended use of Metro resources, as well as, reduce the possibility of unapproved expenditures for which reimbursement would not be paid.

### Grant Compliance

- ✓ All grant reporting should be prepared and submitted within the required time constraints. This helps to ensure the completeness of fiscal activity and the timely receipt of grant funds.
- ✓ As previously noted, 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. Adequate monitoring helps ensure that information reported to grantors reconciles with the Louisville Metro financial system.
- ✓ Grant reports should be signed and dated to signify approval. Additionally, this helps determine the timeliness of grant preparation and submittal.
- ✓ Grant report preparation should be performed with consideration of completion of all procedures timely. This includes the review and approval of reports and supporting documentation.
- ✓ Routine monitoring and reconciliation of financial system information should help to ensure information is up-to-date, accurate and complete. Ultimately, this would help to expedite the preparation of grant reports.
- ✓ 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.

### **Community Action Partnership Response**

CAP will make every effort to improve upon existing procedures that ensure grants are reviewed and reconciled on a routine basis and financial reports receive the appropriate levels of review and oversight before submission to the grantor. We will also complete regular reviews of grant files to ensure they are appropriately maintained and completely documented.

In addressing issues of timely reporting, the timeliness of month end closings has improved. This directly impacts upon the preparation of financial reports. However, consideration should be given to when and how Grants Management's review of financial reports will be implemented, since such reviews could further impact upon our ability to meet report submission deadlines and program closing dates.

## Purchases

### Scope

Community Action Partnership's (CAP) purchasing procedures were reviewed through interviews with key personnel. A sample of fifteen payment transactions from July 1, 2004 through February 28, 2005 was examined. The sample included payments for goods/services, employee reimbursements and out-of-town travel. The transactions represented charges to the various funding sources for the department.

The review was conducted in order to evaluate the adequacy of CAP purchasing 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. In addition to the examination of the sample of actual invoices, analytical reviews were performed to identify potential duplicate payments and to assess payment timeliness. The following concerns were noted.

### Observations

There were some problems noted in Community Action Partnership's purchasing procedures. As a result, the internal control structure is weakened and its effectiveness impaired. Examples include the following.

#### CAP Departmental Policies and Procedures

- There were some problems regarding policies and procedures used to administer CAP purchasing activity.
  - While management had developed draft departmental policies and procedures for CAP purchases, the manual has not been officially adopted and distributed to staff. The existence of draft policies and procedures exhibits a proactive approach to the management of accounts payable activity.
  - There was no formal documented financial reconciliation performed during the review period. CAP staff explained that financial information is routinely distributed to responsible managers for cursory review and the Business Office is contacted to correct any errors detected. During this review, CAP implemented a Monthly Review and Verification Document that will be used to document the performance of financial statement reviews.

CAP staff should be commended for the planning and implementation of policies and procedures to help improve the administration of accounts payable activity.

#### Inappropriate Payment Document Processing

- It appears that a couple of payment documents were processed inappropriately.
  - One case was noted in which taxes were paid for which Louisville Metro is exempt (e.g., Ky. State sales tax).
  - In another case, the payment document was not approved / signed by an individual who was on the department's signature authorization form in Metro

Finance. There is no documented, verifiable evidence that an authorized individual approved this payment.

### Inadequate Support Documentation

- Some cases were noted in which there was not adequate documentation to support the expenditures.
  - A couple of problems were noted for a travel document examined.
    - The event information did not provide any information for meals that may have been included. Per diem was provided for one lunch during the travel period, which may have been based on an actual restaurant receipt attached with the travel reconciliation. It was not clear as to whether the employee may have been due additional per diem or if meals were included with the program.
    - A mileage reimbursement was paid to the employee, but there was not sufficient documentation to determine the appropriateness of the payment. Beginning and ending odometer readings were not provided. The event information did include a map with the distance from several locations to the event site, but the recorded mileage differs from that actually paid (payment was based on 90 miles more than the event information).
  - Two payment documents were submitted for goods/services without adequate supporting documentation (i.e. original invoice, receipt).
    - In one instance, an invoice appears to be a photo/facsimile copy. Copies of invoices serving as the official supporting documentation increase the risk of duplicate payments.
    - In another case, a document prepared by CAP staff served as the invoice requesting funds to make a purchase. A supplier receipt was not provided with the payment documentation to verify the actual purchase was made.

### Financial System Information

- For three payment transactions reviewed, some of the information recorded in the Louisville Metro financial system did not completely agree with the supporting payment documentation. These cases increase the likelihood that an inappropriate payment could be made and lessen the reliability of the financial system information.
  - The address noted on one invoice differed from the address recorded on the Metro financial system, printed on the payment document and ultimately printed on the check. This could result in payment being sent to an inappropriate location/payee.
  - A couple of problems were noted with the invoice number/date recorded.
    - In one case, three different variations of a single invoice number were input into the Metro financial system. In addition to not recording invoice information in a clear manner, this type of processing practice (not using the actual invoice number) increases the risk of duplicate payment being made.
    - In another case, an incorrect invoice date was input in the Metro financial system and printed on the payment document.

### Payment Timeliness

- Kentucky State Law requires that invoices be paid within 30 days of receipt. Some problems were noted regarding the timely payment of invoices.
  - While some supplier invoices may be stamped when received by CAP, not all are. The absence of a receipt stamp makes it impossible to determine the actual date the invoice was received. Therefore, payment timeliness cannot be determined with certainty.
    - Considering the invoice date compared with the check date, one of the fifteen payments examined did not appear to have been made timely.
  - Based on a computer-assisted analysis, 376 of 2,431 invoices (15%) for the review period were not paid timely. It should be noted that this computer-assisted analysis was based on the invoice date and check date recorded in the Metro's financial system; the actual payment documents were not examined.

### Recommendations

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

#### CAP Departmental Policies and Procedures

- ✓ CAP 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 CAP staff authorized to initiate purchases, approve payment documents and forms that are used to process activity.
- ✓ The documented policies and procedures should be disseminated to all applicable personnel. Training of key staff may also be necessary to ensure consistency and uniformity in the procedures. The manual should be used as a training tool for new staff and individuals serving in backup roles.
- ✓ The internal policy and procedures should reflect the most current information and be updated periodically. This will help ensure adherence to applicable guidelines, along with promoting efficiency and effectiveness of purchasing administration.
- ✓ The documented policies and procedures manual should include a formal reconciliation process. The detailed monthly financial reports should be compared to some type of source documentation (e.g., payment document, transaction register). This helps ensure the transactions were processed as intended and posted to the proper financial coding in a timely manner. This also helps strengthen the reliability of the financial statements.
- ✓ 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.

- ✓ 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 in the financial system.
- ✓ Routine supervisory review should be performed to assess the completeness of files and the accuracy of the activity, including the adherence to guidelines. These reviews should be documented and signed by the reviewer. Compliance with requirements is extremely important considering the fact that CAP activity is mainly funded through grant awards.

#### Inappropriate Payment Document Processing

- ✓ CAP should ensure payments do not include taxes Metro Louisville is exempt from paying (i.e. 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 supplier.
- ✓ A responsible manager should review all supporting documentation and document approval by signing the payment document. This individual should be on record with the Finance Department as authorized to sign the payment document for processing.
- ✓ The Metro Finance Department Accounts Payable division should monitor payment transactions to help ensure adherence to applicable policies and procedures. This includes verifying that authorized individuals approve payment documents.

#### Inadequate Support Documentation

- ✓ Out of town travel should be processed in accordance with Louisville Metro Finance policies and procedures. Any exceptions to established guidelines should be properly documented and approved. This helps to ensure travel is for an official purpose that clearly benefits Louisville Metro.
- ✓ The travel documents should be completed accurately so that per diem calculations can be independently verified.
- ✓ Care should be taken by all employees to ensure travel calculations are accurate and properly documented. All amounts should be recalculated as part of the reconciliation process.
- ✓ The importance of complete and accurate documentation should be emphasized to all individuals. Documentation should be sufficient to allow independent review of travel records without assistance or interpretation.
- ✓ A complete copy of all supporting documentation should be maintained to support payments. This includes the supplier invoice/receipt and receiving report (if applicable) that may be associated with the transaction.
- ✓ The accounts payable files maintained in Metro Finance should contain the original supplier invoice. In cases where original documents are not available, a notation

should be recorded on the supporting documentation. Metro Finance serves as the custodian for this supporting documentation. This helps to ensure that complete documentation is available for payments. Additionally, this helps to avoid duplicate payments made based on copies of invoices for which payment had already been made.

- ✓ All invoices should be reviewed and approved by a responsible manager before payment. Managers should review all source documentation to ensure the transaction appears appropriate. This includes ensuring the goods/services were actually received.

### Financial System Information

- ✓ Routine processing should include verifying the appropriateness of information input into the financial system. The Louisville Metro financial system was designed with inherent controls that help to ensure adherence to established policies, along with helping to ensure the appropriateness and accuracy of payments. The effectiveness of these controls is dependent upon the accuracy of the information input into the system for processing (e.g., invoice number, payee information).
- ✓ As previously noted, monitoring is a major component of any reporting system. Proper review should be performed in order to ensure that financial records are complete and accurate. This includes comparing support documentation (e.g., invoices, payment documents, etc.) on a routine basis. Periodic spot checks by supervisory personnel would also help ensure processing accuracy. The usefulness of the financial statements is dependent upon the integrity of the information recorded in the financial system.
- ✓ The importance of complete and accurate information should be stressed to all staff responsible for processing payment documents. It is important that personnel be accountable for recording accurate and complete information. Additional training of key personnel may be necessary.

### Payment Timeliness

- ✓ Care should be taken to ensure invoices are processed in a timely manner. State Law requires that payment be made within 30 days of receipt of invoice. All invoices should be date/time stamped when received from the vendor to help document compliance with the law.
- ✓ Any instance in which a payment is intentionally delayed (e.g., dispute with vendor) should be properly documented. This documentation should be submitted to Metro Finance with the payment document.

### **Community Action Partnership Response**

CAP will make every effort to address those issues noted in the observations and recommendations related to purchases. The draft policies and procedures will be updated and finalized for dissemination to agency staff. Business office staff will receive training to ensure policies and procedures are followed when preparing financial documents.

Supervisory reviews of purchasing files and records will be conducted on a regular basis to ensure they are maintained in the appropriate manner.

## Asset Management

### Scope

Key personnel were interviewed in order to document the policies and procedures associated with asset management for the Community Action Partnership (CAP). Since CAP does not have capital assets (threshold of \$5,000), the scope of this review was to determine the adequacy of internal controls for the administration of custodial assets, which includes how items are managed, recorded and monitored. Custodial assets are defined as items purchased at \$1,500 or more but less than \$5,000 (i.e. computers, printers, office equipment, and such).

### Observations

There were some weaknesses noted with the administration of asset activity. This weakens the internal control structure and impairs its effectiveness. Examples include the following.

- CAP does not have a documented internal policy with regards to asset management (i.e. additions, deletions, location moves, tracking and monitoring). The lack of documented procedures increases the risk of non-compliance with intended procedures and policy. This can lead to inconsistencies and inefficiencies with asset management. It also increases the risk that assets may not be properly safeguarded.
- CAP's custodial assets list is outdated (last revision was September 2002). Metro policy states that tracking and monitoring of custodial assets is a departmental responsibility. The lack of routine tracking and monitoring of assets increases the risk that assets may not be properly accounted for and safeguarded from theft, loss, or destruction.

### Recommendations

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

- ✓ CAP 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 CAP personnel. The procedures should address asset additions, deletions, and transfers. It should also address tracking and monitoring responsibilities so as to ensure proper safeguarding of assets.
- ✓ CAP has just recently performed a physical inventory of custodial assets and is working to update the list. CAP personnel should continue with their current efforts to update their asset list. The list should be routinely verified, at least on an annual basis. The asset records should be periodically compared with physical items 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. This will help ensure that all assets are accounted for and properly safeguarded.

**Community Action Partnership Response**

CAP concurs with these recommendations and will take the necessary steps to ensure that physical inventories are completed annually and asset records are updated. Additionally, policies and procedures related to asset management will be incorporated into the agency's policies and procedures manual.

## Revenue

### Scope

The Community Action Partnership (CAP) procedures for administering revenue were reviewed through interviews with key personnel. Specific revenue areas addressed included agency receipts (fundraisers) and donations (monetary and goods/services). Federal funds were not included in the audit scope. The review focused on the fiscal administration of how CAP processes, records, and monitors the revenue activity. *Testing of transactions was **not** performed since the revenue is volunteer-based and received sporadically, as opposed to scheduled monies due to CAP.*

### Observations

Some issues were noted with the administration of the CAP revenue. The control structure is satisfactory. Specific concerns include the following.

- CAP does not have documented internal policies and procedures for the administration of revenue and donation activity. This increases the risk of non-compliance with intended procedures, as well as policy. This can lead to inefficiencies, inconsistencies, and confusion with oversight and processing. Ultimately, this may result in loss of funds, untimely processing of deposits, inadequate safeguarding of assets, and such.
- It is not certain if CAP is in compliance with the Metro donation policy. The policy states that individual donations of a value less than \$5,000 do not have to be reported to the Metro Council. However, it does not address cumulative donations from one source (i.e. goods received throughout the year from Dare to Care totaling more than \$5,000).
- CAP does not establish an annual budget at the beginning of the fiscal year for the miscellaneous revenue account. The account is used throughout the year to record revenues generated from fundraisers. Actual funds collected are not budgeted until the end of the year, which distorts the budget and puts the funds at risk of not being spent.
- The individual depositing funds does not always attest to the amount of funds in their custody. There is an inherent risk of loss of funds, and accountability is weakened, when custody is not documented. This is especially true in cases where cash is involved.

### Recommendations

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

- ✓ CAP personnel should document internal procedures with regards to the administration of revenue and donation activity. This will help ensure adherence to policies, safeguarding of assets, as well as promote consistency with processing. 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.

- ✓ CAP personnel should consult with the County Attorney to ensure they are compliant with the Metro donation policy. An official opinion should be obtained to provide support documentation for their reporting requirements, especially with regards to cumulative donations from one source.
- ✓ CAP personnel should consult with their Budget Analyst to determine the proper way to reflect anticipated revenues from fund raising events. Ideally, an estimate of funds should be reflected in the budget at the beginning of a fiscal year. This would allow for associated expenses to be reflected and spent as revenue is collected.
- ✓ Custody should be documented any time funds are transferred from one individual to another. This could be accomplished by the use of signatures on the internal CAP deposit form. At a minimum, this process should be implemented in cases where cash is involved. It will help provide accountability and attestation to the amount of funds involved in a transfer.

### **Community Action Partnership Response**

Policies and procedures related to the administration of revenue and donation activity will be incorporated into the policies and procedures manual. Budget adjustments will be made, as needed, to reflect revenues from fund raising events and other miscellaneous activities. Additionally, an official opinion has been requested from the County Attorney's office as to our compliance with Metro donation policy. Finally, an internal form has been created to document when funds are transferred from one individual to another.

## Petty Cash

### Scope

The Community Action Partnership (CAP) procedures for managing petty cash were reviewed through interviews with key personnel. There is one petty cash account authorized for CAP through Metro Finance for \$250. Internal Audit reconciled the CAP petty cash fund by verifying cash on hand and receipts. The following concerns were noted.

### Observations

Some minor concerns were noted with the administration of the CAP petty cash fund. The control structure is satisfactory. Specific issues include the following.

- CAP does not have documented internal policies and procedures for the administration and use of petty cash funds. This increases the risk of non-compliance with intended procedures, as well as policy. Ultimately, this could result in the misuse or loss of funds.

### Recommendations

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

- ✓ CAP should prepare internal policies and procedures to supplement Metro Finance procedures on petty cash. This should be made available to all personnel.
- ✓ 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.

- ✓ 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.

**Community Action Partnership Response**

Internal policies and procedures for the administration of petty cash will be incorporated into the policies and procedures manual.