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Mayor

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Metro Council

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Office of Internal Audit

Louisville Fire
Department

CPR Center



Audit Report

Office of Internal Audit

Louisville Fire Department

CPR Center

June 2006



Louisville Fire
Department

CPR Center

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Transmittal Letter

June 23, 2006

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Re: Review of Louisville Fire Department's CPR Center

Introduction

The operating records and procedures of the Louisville Fire Department's (LFD) CPR Center were examined. The primary focus of the audit was the operational and fiscal administration of the activity. This included how Fire processes, records, and monitors the activity.

The examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. 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 the Louisville Fire Department's CPR Center were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity. Tests of sample data were performed for transactions from fiscal year 2006 (July 1, 2005 to January 31, 2006). Activity reviewed included CPR Center cash register activity reports, credit card reports, bank statements, and financial postings, as well as payroll records for CPR instructors.

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not reveal all non-compliance issues because it was based on selective review of data.

Opinion

It is our opinion that the administration of Louisville Fire CPR Center activity is inadequate. The internal control rating is on page 5 of this report. This rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action.

Opportunities to strengthen the administration of the LFD's CPR Center were noted in several areas. Examples of these include the following.

- **General Administration.** There are no documented policies and procedures to guide personnel in the administration and management of CPR Center activity (i.e. payment processing, deposits, billing, inventory, and such). Also, there is inadequate segregation of duties given that one person is responsible for administering almost all of the CPR Center activity.
- **Monitoring and Reconciliation.** CPR Center transactions (i.e. cash register and credit card terminal transactions) are not reconciled on a daily basis or verified to system activity reports. This increases the risk that transactions may not be processed as intended and inappropriate activity could go undetected.
- **Payroll – CPR Center Instructors.** Formal documentation establishing the rate of pay for CPR instructors was not readily available from Louisville Fire Department personnel. This increases the risk that instructors could be paid at an inappropriate rate.

Corrective Action Plan

Representatives from the Louisville Fire Department have reviewed the results and are committed to addressing the issues noted. Fire's corrective action plans are

included in this report in the Observations and Recommendations section. We will continue to work with Fire to ensure the actions taken are effective to address the issues noted.

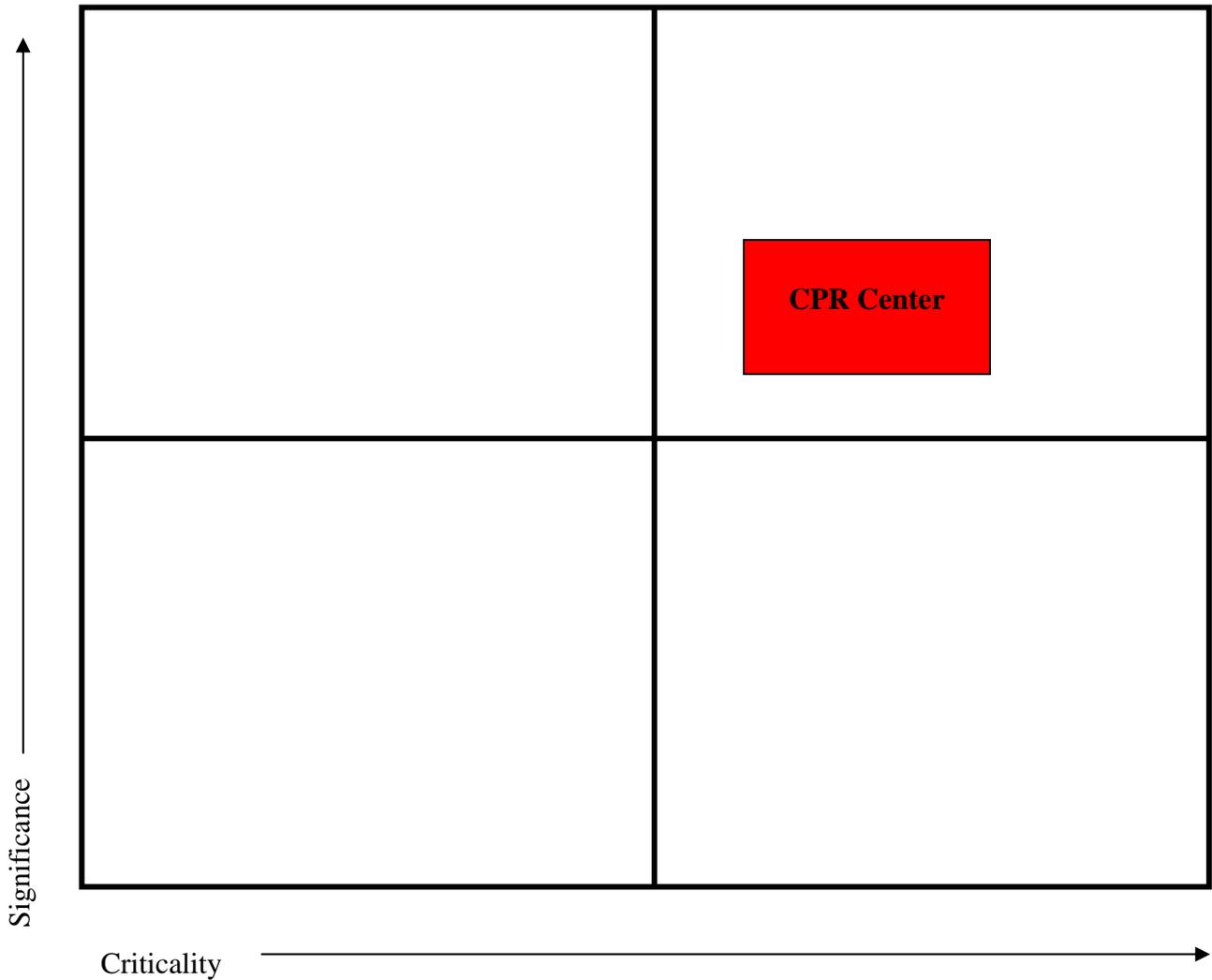
Sincerely,



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Secretary of the Cabinet for Public Protection
Louisville Fire Department Chief

Internal Control Rating



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

Background

The Louisville Fire Department's (LFD) CPR Center is contracted by the American Heart Association (AHA) to teach the community CPR skills. The AHA provides the CPR Center with guidelines to simplify information and emphasize the importance and fundamentals of high quality CPR. The LFD's CPR Center is one of the largest training centers in the country offering up to 17 different types of CPR training classes, such as Basic Life Support and Advanced Cardiac Life Support. The LFD's CPR Center services approximately 20 counties in both the Kentucky and Indiana region. In 2005, approximately 16,000 participants obtained their CPR certification from the LFD's CPR Center. Approximately 1,400 instructors have been certified through the program, with 100 of those instructors coming from the Louisville Fire Department.

The fiscal year 2006 operating budget for the Louisville Fire Department's CPR Center is \$60,000. This is comprised of revenues generated from CPR Center activity.

This was a scheduled audit.

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 previously audited the Fire Department's CPR Center in September 2000. CPR Center deposit activity was also audited in July 2004. Unless otherwise noted, all prior weaknesses have been satisfactorily addressed.

III. Statement of Auditing Standards

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

IV. Statement of Internal Control

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

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

The examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected 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 / Action Plan

A draft report was issued to the Louisville Fire Department on April 24, 2006. An exit conference was held at Fire's administrative office on May 16, 2006. Attending were Chief Gregory Fredrick representing Fire; Mike Norman, Ingram Quick, and Mary Ann Wheatley representing Internal Audit. Final audit results were discussed.

The views of Fire officials were received on June 23, 2006 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

Observations and Recommendations

Scope

The Louisville Fire Department's procedures for administering CPR Center activity were reviewed. The primary focus of the review was the operational and fiscal administration of the activity. This included the processing, recording, and monitoring of activity. Applicable personnel were interviewed in order to gain a thorough understanding of the various processes.

A sample of CPR Center deposits (three cash deposits and three credit card deposits) was judgmentally selected for review from the population of deposits for the period July 1, 2005 through January 31, 2006. The review focused on information recorded in cash register and credit card activity reports, transaction receipts, bank deposits, and the Louisville Metro financial system. In addition, a sample of five CPR Instructor's payroll activity was judgmentally selected for review to ensure appropriateness. An assessment of the internal controls and procedures for the administration of CPR Center activities was performed. The results are as follows.

Observations

There were issues noted with the administration of the Louisville Fire Department's CPR Center. As a result, the internal control structure is inadequate and its effectiveness impaired. The observations are as follows:

- #1 General Administration
- #2 Monitoring and Reconciliation
- #3 Payroll – CPR Center Instructors

Details of these begin on the following page.

#1 – General Administration

Some issues were noted with the general administration of the Louisville Fire Department's (LFD) CPR Center activity. As a result, the internal control structure is inadequate and its effectiveness impaired. The following is a description of the problems found with the general administration of CPR Center activity.

- There are no documented policies and procedures to guide personnel in the administration and management of CPR Center activity (i.e. payment processing, deposits, billing, inventory, and such). This increases the risk of non-compliance with intended policies and procedures. This can also lead to inconsistencies and inefficiencies with activity processing.
- It does not appear that the principles of segregation of duties are being properly adhered to in that the Training Center Coordinator processes all CPR Center transactions, performs register / system closings, and makes deposits. The Coordinator is also responsible for the inventory management of training center supplies (i.e. ordering, receiving, and distribution).
- The Training Center Coordinator is the only LFD personnel associated with the activity of the CPR Center. There are no backup personnel designated to process CPR Center activity in the Training Center Coordinator's absence.
- The Training Center Coordinator is behind on updating the inventory system for training supply purchases. It appears this may be attributable to a heavy workload. Delays in updating the inventory system can result in inaccurate supply totals / counts, thus hindering its usefulness as an inventory management tool. It was also noted that the last inventory audit performed at the CPR Center was over a year ago.
- The process used to bill customers for CPR training supplies is somewhat manual and inefficient. Unnecessary copies of invoices are maintained, follow-up on unpaid invoices consists of periodic phone calls to customers, and there are no documented guidelines for the collection and monitoring of accounts receivable.

Recommendations

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

- ✓ A written internal policies and procedures manual should be developed to guide CPR Center personnel in the administration of CPR Center 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. The internal policies and procedures manual should be distributed to all applicable personnel. In addition, key personnel should be trained to help ensure consistent adherence to the requirements. The

internal policies and procedures should reflect the most current information and be updated periodically.

- ✓ Ideally, segregation of duties should be incorporated into CPR Center activity processing. A single individual should not be responsible for the receipt, recording, deposit, and reconciliation of activity. In cases where complete segregation is not feasible (e.g., staff size constraints), appropriate compensating controls should be practiced (e.g., supervisory review, monitoring).
- ✓ Backup personnel should be assigned to the CPR Center to cover in the absence of key personnel.
- ✓ Fire command should consider the possibility of placing a civilian manager in charge of the CPR Center. As with other divisions of Fire (Budget, Finance, etc.), this would allow for an individual with more administrative focus to be permanently assigned in charge of the center operations. This manager would still ultimately report to a member of the command staff. This would promote continuity of management practices, as well as, allow for the current Training Center Coordinator's position (i.e. Firefighter) to be dedicated to another area. The Department of Human Resources should be consulted regarding the classification structure of CPR Center positions.
- ✓ Care should be taken by Fire personnel to ensure that the CPR Center inventory system is updated in a timely manner when supplies are received into stock. This will help ensure that the system is reporting accurate inventory totals and increase its usefulness as an inventory management tool. This will also help in the safeguarding of assets by ensuring that all items are properly accounted for. Implementing appropriate segregation of duties, as previously noted, should allow for more time to properly update the system.
- ✓ The CPR Center should explore the possibility of using the Louisville Metro Accounts Receivable system for billing customers. The use of the system will help ensure that all revenue is billed and collected in a consistent and timely manner and allow for proper segregation of duties. In addition, processing transactions through this system credits the revenue to the applicable financial center when invoiced, not collected. This would also decrease the administrative responsibilities associated with the billings. Fire personnel should contact Metro Finance for assistance with billing customers.

#2 – Monitoring and Reconciliation

There were several weaknesses noted with regards to the monitoring and reconciliation of the Louisville Fire Department's (LFD) CPR Center activity. As a result, the internal control structure is inadequate and its effectiveness impaired. Examples include the following.

- CPR Center cash register activity is not reconciled on a daily basis. Though cash register reports are generated daily, funds are kept in the cash register for days at a time until a deposit is prepared (approximately every two weeks). Similarly, the credit card terminal is not closed out on a daily basis. The terminal is closed approximately every three days.
- CPR center activity is not reconciled to cash register closing reports. Instead, the funds are reconciled to duplicate register receipts that are printed for all transactions. There is a risk with this process that receipts may not be printed for all transactions, thus greatly complicating the reconciliation. This process is also very inefficient in that closing reports provide all the totals necessary to properly reconcile activity without having to print numerous receipts.
 - Though credit card transactions are reconciled to settlement reports (credit card terminal closing reports), the totals are not reconciled to the corresponding cash register activity reports to ensure all entries were properly processed.
- Three consecutive CPR Center deposits were reviewed to ensure that deposit amounts appeared appropriate. The review was performed in two ways: 1) deposit amounts were compared to corresponding cash register closing reports and 2) deposit amounts were compared to individual register receipts attached as support documentation for the deposit. Problems were noted with both reviews.
 - The three consecutive deposits reviewed could not be reconciled to corresponding cash register closing reports. Variances ranged from the deposit totaling \$518.12 less than the register reports, to the deposit totaling \$206.19 more than the register reports. It should be noted that a day's activity was often split between deposits, basically making it impossible to reconcile to daily cash register closing reports.
 - The three consecutive deposits reviewed could not be reconciled to corresponding register receipts (i.e. deposit supporting documentation). Variances ranged from the deposit totaling \$50 more than the register receipt totals, to the deposit totaling \$342.48 less than the register receipt totals. Based on an analysis of daily receipt activity, it appeared that some receipts were missing or misfiled with another deposit.
- Although the Fire Business Manager monitors the CPR Center's financial accounts, there is no documented reconciliation to ensure funds have posted to the correct accounts and proper effective period.
 - There were three cases where the deposits posted a month later than the activity effective period.

Recommendations

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

- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that administrative staff reviews CPR Center activity on a regular basis. This includes reviewing individual transactions for appropriateness, completeness, and adherence to requirements, along with monitoring of financial system reports.
- ✓ The CPR Center's cash register activity should be closed on a daily basis and funds should be reconciled to the activity report totals, not individual receipts. Ideally, two individuals should be present during the verification / count of actual funds. The reconciliation should be documented and signed by both individuals to indicate agreement. This will help ensure that transactions were processed as intended. This will also help strengthen the reliability of the cash register activity reports.
- ✓ All funds should be deposited in a timely manner in accordance with the Department of Finance's Cash Management Policies (weekly or when \$1,000 is exceeded, whichever occurs first). This will help ensure the security of funds and optimize investment income for Metro operations. The Fire department may want to contact Metro Finance to explore the possibilities of using an armored car service for transporting deposits.
- ✓ The CPR Center's credit card terminal should be closed daily in conjunction with the closing of the cash register. The settlement report generated from the credit card terminal should be compared to the cash register activity report. This will help ensure that all credit card payments were properly processed (i.e. processed through the terminal for deposit into a Metro bank account).
- ✓ Routine supervisory review should be performed to ensure that proper reconciliations are performed. Verification of reconciliations will improve the completeness and accuracy of activity reports. This will also help ensure the reliability of information for management analysis and help with providing an effective audit trail.
- ✓ 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. The reconciliation should be documented.

#3 – Payroll – CPR Center Instructors

There were some minor issues noted with the processing of payroll for the Louisville Fire Department's (LFD) CPR Center instructors. As a result, the internal control structure is weakened and its effectiveness impaired. Examples include the following.

- Formal documentation establishing the rate of pay for CPR instructors was not readily available from Louisville Fire Department personnel. This increases the risk that instructors could be paid at an inappropriate rate. (The rate is established by the Department of Human Resources and documentation was obtained from them.)
- Some minor discrepancies were noted with the review of payroll activity for CPR Center instructors.
 - There was one case where an instructor's pay was not charged to the proper financial coding (charged to Third District – Engine 18 instead of CPR Training – Alcoa Grant).
 - There was one case where the hours of instruction indicated on the overtime differential sheet did not agree with the employee's class roster or Master Payroll Timesheet. The employee was paid as indicated on the class roster and Master Payroll Timesheet.
 - Two Master Payroll Timesheets were not signed by the appropriate personnel to signify approval.

Recommendations

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

- ✓ Fire personnel should have documentation readily available to support established rates for CPR instructors. This will help ensure that appropriate rates are paid as required by the LFD union contract.
- ✓ Care should be taken by Fire personnel to ensure that payroll activity for CPR instructors is processed appropriately. This includes verifying that all source documents record proper information (i.e. instructor name, date of training, number of hours of instruction), approvals are properly indicated, and the expense is charged to the appropriate financial coding.

Fire Corrective Action Plan

Fire Officials have reviewed the CPR Center audit report and have formulated the following corrective action plan.

- The Fire Department has recently (February 2005) undergone a transition with regard to the EMS Bureau. Our supply function was housed within the EMS bureau and co-located at our Brook and Bloom facility with the CPR center. This arrangement allowed for separation of duties and necessary operational support for the CPR center. The extraction of that bureau created the current void identified by the audit. The Fire Department has recently moved the center to Fire headquarters in order to provide necessary support and allow for proper separation of duties. The Department will develop and implement policies which guide the administration and management of the CPR Center.
- The Fire Department will implement changes that provide sufficient reconciliation and monitoring. These changes will be accomplished through new policies and changes to the organizational structure.
- With regard to CPR instructors' rate, there is a specified rate established through the Civil Service and Human Resources as mandated by the Current Collective Bargaining Agreement. The rate as established is known by our payroll clerks, but will be included in our policies regarding CPR instructor hiring.