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Mayor

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Metro Council

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Office of Internal Audit

Louisville Metro

Donations Activity

Audit Report

Louisville Metro

Donations Activity

August 2006



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Transmittal Letter

August 2, 2006

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

Re: Compliance Review - Metro Donations Activity

Introduction

A compliance review of Louisville Metro donations activity was performed. Metro Departments that receive donations are required to comply with Ordinance §20.15 and the Metro Donations Policy (administered through the Department of Finance and Budget). The focus of the review was compliance with ordinance and policy requirements. This included how departments' process, record, monitor, and report the donation 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 Louisville Metro Government Donation Ordinance (§20.15) and Policy were reviewed. Interviews of key personnel were conducted. A sample of donations activity was reviewed. The sample was chosen from the period July 1, 2004 through September 30, 2005. The examination included department confirmations for donations received; quarterly donation reports submitted to the Department of Finance and Budget, financial system activity, and departmental donation records.

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 Louisville Metro donation activity's compliance with requirements is weak. The internal control rating is on page 5 of this report. This rating quantifies the opinion regarding the internal controls. Opportunities to strengthen the compliance of Louisville Metro donations activity were noted. Examples of these include the following.

Reporting. The Donation Policy requires quarterly reporting of donation activity to the Department of Finance and Budget (via the quarterly budget reports). There appears to be significant non-compliance with this requirement. However, this could not be determined with certainty. Several departmental reports were either not submitted, or they could not be located by Finance. Part of the difficulty in determining compliance with this requirement is that Finance does not have a routine procedure in place to follow up on missing or incomplete quarterly budget / donation activity reports.

Awareness and Comprehension. It appears that several Metro Departments were either not aware of the donation requirements, or else chose to not comply. The Policy is available on the Metronet, along with other financial policies, so access to the requirements is not an issue. In addition, several Metro Departments voiced concerns about the policy requirements and the feasibility of meeting these requirements given the volume of small monetary and non-cash donations. This may be a contributing factor to non-compliance issues.

Financial System. The Metro financial system is used to record financial donation activity. Issues were noted with the proper recording of activity on the financial system. This includes the use of accounting codes that are not descriptive of the actual transaction. This lessens the usefulness of the financial system information for analytical and monitoring purposes. In addition, the financial system is not used to record or monitor non-cash donations. It is the responsibility of each department to administer this activity.

The implementation of the recommendations in this report will help improve the internal control structure for the Metro donation activity.

Corrective Action Plan

Representatives from the Department of Finance and Budget have reviewed the results. Finance's corrective action plan is included in this report as responses in the

Observations and Recommendations section. The Office of Internal Audit will continue to work with Metro Finance to ensure the actions taken are effective to address the issues noted.

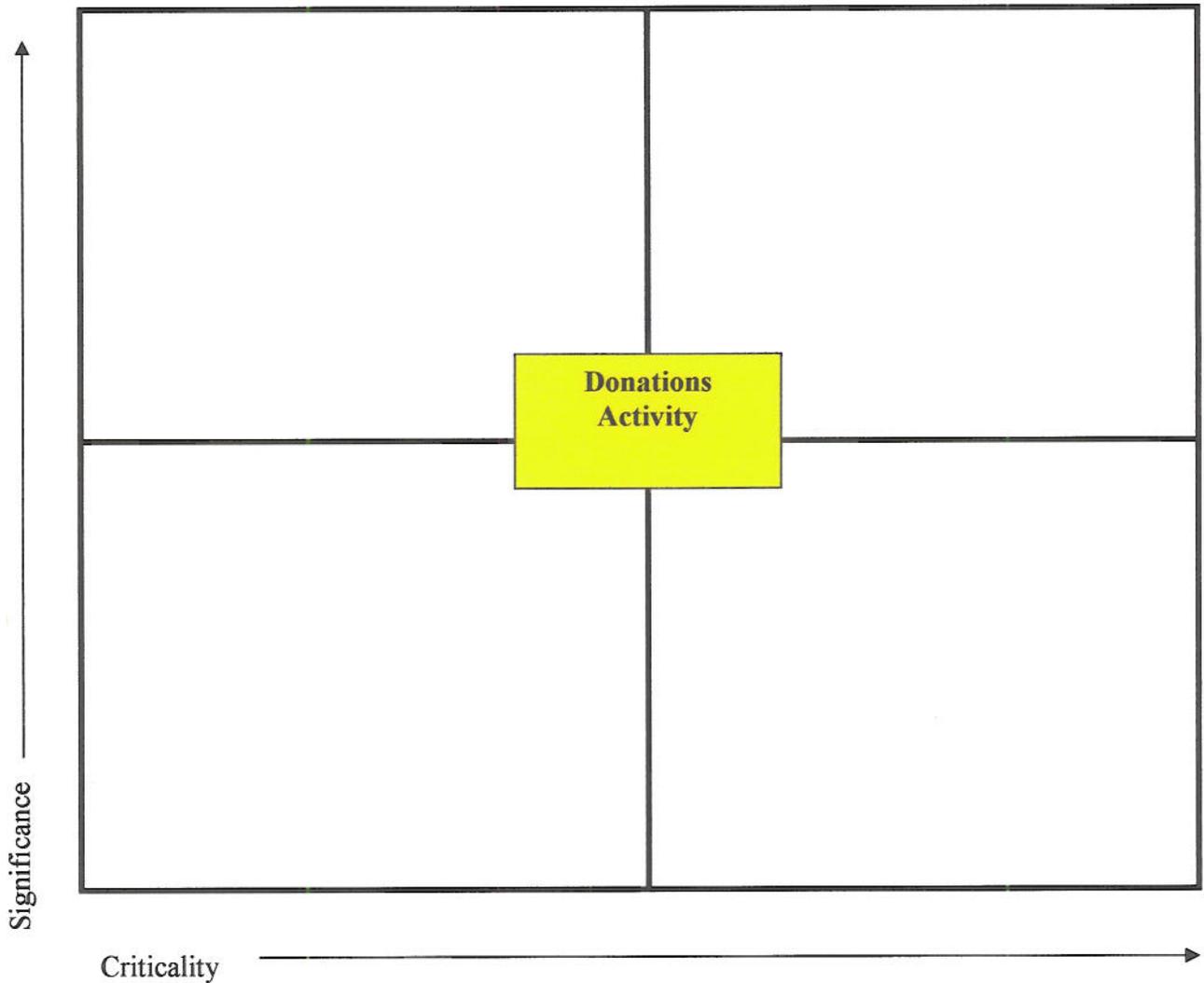
Sincerely,



Michael S. Norman, CIA, CGAP
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Secretary of the Cabinet for Finance and Administration
Chief Financial Officer

Internal Control Rating



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

Background

Louisville Metro Government is authorized to accept donations in accordance with Ordinance §20.15. Specific processing and reporting requirements are included in the Metro Donation Policy, which is administered by the Department of Finance and Budget. This addresses donations received from individuals, businesses, and corporations for municipal purposes including cash or checks, personal or real property, intangible items such as stocks and bonds, and goods or services.

Departments must report donations on a quarterly basis to the Department of Finance and Budget. These reports should be included in the quarterly budget reports and must include a listing of all donations by department and division, donor name, donation value, date, and actual distribution. This includes non-monetary donations.

Metro Departments are required to maintain a file of documentation for all donations received. The required documentation includes a donation data sheet, a letter from the donor offering the donation, a donor acknowledgement letter, the department's distribution plan, and Council resolution (if required by Ordinance §20.15).

For the departments examined, the Louisville Metro financial system recorded approximately \$2.2 million in donations for fiscal 2005 and \$670,000 for the first quarter of fiscal 2006.

This was a scheduled compliance review.

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 performed a preliminary compliance review of the Donation Policy and issued the results in March 2003. Unless otherwise noted, all prior problems 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 to obtain a sufficient understanding in order 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 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 / Action Plan

A draft report was issued to Metro Finance on March 23, 2006. An exit conference was held at the Department of Finance on July 11, 2006. Attending were Jane Driskell, Daniel Frockt, and Kim Statts representing Finance; Michael Norman representing the Office of Internal Audit. Final audit results were discussed.

The views of Finance officials were received on August 2, 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 Metro Government Donation Ordinance (§20.15) and Policy were reviewed. Interviews of key personnel were conducted to gain an understanding of the procedures for the administration of donation activity. The focus of the review was compliance with requirements in the ordinance and policy. This includes the processing, recording, monitoring, and reporting of activity. A sample of donation activity was judgmentally selected for review from the period July 1, 2004 through September 30, 2005. The activity was from the following three areas.

1) Confirmation Letters

Confirmation letters were sent to twenty-nine Metro Departments. The confirmation letters requested that responsible departmental staff provide a signed affirmation regarding the reporting of donations for the review period. The confirmation letters afforded the opportunity to report whether departments complied with applicable reporting requirements in accordance with the Metro Donation Policy.

2) Donation Reports

The population of quarterly budget reports for the review period was requested from the Department of Finance and Budget. All Metro Departments are required to submit these quarterly budget reports, which should include the donations activity for the period. The information on the donation reports was compared to the donation activity recorded on the Metro financial system to assess accuracy and completeness.

3) Departmental Donation Records

Records for six individual donation transactions, involving four Metro Departments, were examined. Each department should maintain the required documentation for individual donations received. These records were examined to assess completeness and compliance with Metro policy.

The examination would not reveal all non-compliance issues because it was based on selective review of data. The following issues were noted.

Observations

Compliance issues were noted for the Louisville Metro donations activity. As a result, the internal control structure, which helps ensure compliance, is weakened and its effectiveness impaired. The issues are segregated into the following observations.

- #1 Reporting
- #2 Awareness and Comprehension
- #3 Financial System

Details of these begin on the next page.

#1 - Reporting

The Metro Donation Policy requires departments to report donations on a quarterly basis to the Department of Finance and Budget. The reports must include a listing of all donations by department and division, donor name, donation value, date, and actual distribution. Issues were noted with the reporting of donations that weaken compliance with requirements. Examples of these include the following.

- The procedures used to report donations to the Department of Finance and Budget appear to be ineffective. Examples of the issues include the following.
 - The Finance Department could not locate several of the departmental quarterly budget reports for the review period. Therefore, it could not be determined if these departments complied with the reporting requirement.
 - The Finance Department does not have a procedure to ensure the receipt of donation report documentation. Therefore, it could not be determined if departments complied with the reporting requirement.
 - The donation activity posted on the Metro financial system was compared to the quarterly budget report information departments submitted to Finance. Although donation activity was recorded on the financial system, several departments' quarterly budget reports did not include the required listing of donations.

Similar problems were noted during the previous review.

- Confirmation letters were sent to Metro Departments requesting them to confirm whether any donations were received during the review period and if they were reported in accordance with policy. The following problems were noted.
 - Three departments confirmed that no donations were received, even though the financial system recorded donations for the period.
 - There were a couple of cases in which the departments confirmed that donations were received and reported to Finance, but Finance could not provide the quarterly budget reports. In the case of one of the departments, some quarterly reports were provided that did not include any donation activity. Therefore, it could not be determined if the departments complied with the reporting requirements.
 - Several departments disclosed that donations were received but not reported to Finance. In many cases, the confirmations for these departments included detail for the unreported activity or an explanation why it was not reported to Finance.
 - Confirmation responses were not received for two departments.

Overall, these cases indicate an ineffective reporting process and apparent non-compliance with Metro policy. Missing or inaccurate documentation impedes the ability to conclusively determine compliance with the Donation Policy reporting requirements.

Recommendations

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

- ✓ The Department of Finance and Budget should review the reporting requirements of the Donation Policy. The intended purpose of the reporting requirements should be reviewed to see if it is still beneficial / desired. This may be a requirement that provides little benefit in ensuring accountability for donation activity. The goal is to have a policy that promotes compliance with the Donation Ordinance, and helps mitigate risk associated with the activity.
- ✓ If it is determined that the reporting requirements of the Donation Policy are needed, then a system to ensure completeness of reporting should be implemented. This would involve verifying the receipt of information, follow-up for reports not received, and management / filing of the information received. It would also include verification of the accuracy of the information reported by comparing it to the financial system.
- ✓ Representatives from Metro Departments should be consulted to help identify and implement best practices for the administration of donations. This would help promote accountability and compliance with requirements.
- ✓ Training of key personnel, including departmental as well as Finance and Budget, is critical. The monthly Business Managers meetings provide a good forum for this type of training.

#2 - Awareness and Comprehension

A lack of awareness and comprehension may contribute to non-compliance issues with the Donation Policy requirements. Examples of the issues include the following.

- Several departments contacted Internal Audit during the performance of this review inquiring about the Donation Policy. Departmental staff stated that they were not familiar with the policy or its requirements. It should be noted that the Donation Policy is available to individuals with access to the Louisville Metronet. The Department of Finance and Budget routinely uses the Metronet to disseminate its policies, therefore departmental Business Managers should be aware of this communication tool and the information contained on it.
- Some departments contacted Internal Audit to discuss the documentation requirements. The types of donations these departments receive include small monetary donations at several sites, and unsolicited non-cash donations for use by the department's clients. The documentation requirements for these donations are not being complied with. The departments expressed concern that meeting the requirements is more costly than the value provided.
- A sample of departmental donation files was reviewed for compliance with the Donation Policy. Files were examined for the required documentation to include the donation data sheet, donor letter, donor acknowledgment letter, department distribution plan, and Council resolution (if applicable). While no major problems were noted for the sample reviewed, there was one case in which a departmental file did not contain the donation data sheet. Overall, the departments in the sample are generally complying with the documentation requirements. This indicates that these departments are aware of and understand the requirements.

Based on the items noted, it may be that some departments are aware of and comprehend the Donation Policy requirements, but choose not to comply for other reasons.

Recommendations

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

- ✓ In addition to the posting of policies and procedures on the Metronet, efforts may be needed to further disseminate donation requirements to Metro Departments. Training of key personnel, including departmental and Metro Finance staff, is critical. The monthly Business Managers meetings conducted by the Finance and Administration Cabinet provide a good forum for this type of training.
- ✓ Departments should be held accountable for complying with Metro policies and procedures.
- ✓ Departmental donation files should be properly maintained and reviewed for accuracy and completeness by applicable managers.
- ✓ Departments should ensure proper monitoring is performed for donation activity. This includes ensuring files contain complete and accurate information for all donations and verifying information recorded on internal departmental computer systems (if applicable).

- ✓ Finance and Budget should work with Metro Departments that have issues with the donation documentation requirements as it relates to small monetary and non-cash donations. It may be possible to issue waivers for specific types of transactions for certain departments, especially if other compensating controls are in place.

#3 - Financial System

Monetary donations are recorded on the Metro financial system. It appears the financial system accounts are not used consistently regarding the recording of donation activity. This weakens compliance with the Donation Policy, and lessens the integrity of the financial system data. Examples of the issues noted include the following.

- A couple of cases were noted in which grant funds were recorded using the financial system account for donations. It appears the contributor wanted the funding award to appear as a donation. Since grants normally are received and administered in accordance with a documented agreement, the Metro Donation Policy may not have applied to these transactions.
- It was also noted that some sponsorship activity was recorded as donations on the Metro financial system. Similar to grant funds, sponsorships are normally provided in accordance with documented agreements. Therefore, the Metro Donation Policy may not have applied to these types of transactions.
- Some cases were noted in which the financial account for donations was inaccurately used to record routine accounting transactions. This involved using the donations account instead of the reserve for donations account to record the fiscal period transfer of funds already received.

Non-cash donations are not recorded on the financial system. It is the responsibility of each department to record and account for this activity. This may lead to inconsistency, and makes it difficult to determine the volume of activity for non-cash donations for all of Louisville Metro Government.

Recommendations

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

- ✓ Care should be taken to ensure that the proper financial system accounts are used to record donation activity. This helps to ensure the usefulness of the system for monitoring purposes and compliance with requirements. It may be beneficial to revise the Metro Donation Policy so it defines all donation accounts and their intended uses.
- ✓ Grants should be recorded and administered following applicable Metro Finance policies for this activity.
- ✓ Finance and Budget personnel should determine the feasibility of recording and accounting for non-monetary donations. It may be possible to use the financial system to account for these types of donations. If not, departments should be given a tool (e.g., spreadsheet) so that there is consistency in accounting for these donations.
- ✓ Individual departments should ensure proper monitoring is performed for donation activity. This includes reconciling monetary donations to the Metro financial system and accounting for non-monetary donations.

Metro Finance Corrective Action Plan

The policy and procedures committee of the Finance Department is in the process of reviewing a revised donations form that will be submitted quarterly by agency recipients. The new form will include a section that requires an agency director signature even if no donations were received by the agency that particular quarter.

Implementation guidelines are under current review. The monthly business manager meeting forum will be one of the methods used to disseminate the updated policies and procedures to Metro departments.