



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

MetroSafe Project

Project Expenditures
(Fiscal Year 2004 - Fiscal Year 2006)

Audit Report

Office of Internal Audit

MetroSafe Project



Project Expenditures Fiscal Year 2004 - Fiscal Year 2006

April 2007

MetroSafe Project

Project Expenditures
(Fiscal Year 2004 - Fiscal Year 2006)

Table of Contents

Transmittal Letter 2

 Introduction..... 2

 Scope..... 3

 Opinion 3

 Corrective Action Plan..... 6

 Internal Control Rating..... 7

 Background..... 8

 Summary of Audit Results..... 8

Scope and Methodology..... 11

Observations and Recommendations..... 13

 Purchasing..... 14

 Purchasing Corrective Action Plan..... 15

 Project Management 17

 Project Management Corrective Action Plan 18

 MetroSafe..... 19

 MetroSafe Corrective Action Plan..... 21

Appendix – Total Expenditures..... 22

 Table 1 – MetroSafe Project Expenditures (Fiscal Year 2004 – Fiscal Year 2006)..... 22



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

JERRY E. ABRAMSON
MAYOR

MICHAEL S. NORMAN, CIA, CFE, CCAP
CHIEF AUDIT EXECUTIVE

RICK BLACKWELL
PRESIDENT METRO COUNCIL

Transmittal Letter

April 3, 2007

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

Subject: Review of MetroSafe Project Expenditures (FY 2004 – FY 2006)

Introduction

The expenditures for the MetroSafe project were reviewed. The review included the fiscal administration of expenditure activity, and adherence to laws, policy, and other regulatory guidelines. The primary focus was the compliance with contractual price terms. The review covered activity from project inception through June 30, 2006, which is approximately fiscal year 2004 through fiscal year 2006. A secondary objective was determining the amount of project expenditures through the end of fiscal year 2006.

For this review, the MetroSafe project was defined as any expenditure related to the buildings, land, equipment, design, consulting, facility renovations, and technology. Routine operating expenditures were not included. It is important to note that the MetroSafe project involves more than the MetroSafe division of Metro's Emergency Management Agency. Other Metro Departments have critical roles in the project. These roles include evaluating bids and negotiating contracts for the project. This includes Project Management, Purchasing, and Information Technology. The Crime Commission and the Police Department have had significant roles in the project.

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 expenditures for the MetroSafe project were reviewed. This included activity related to buildings, land, design, consulting, facility renovations, equipment, and technology. Routine operating expenditures were not included. The period reviewed covered fiscal year 2004 (project inception) through the end of fiscal year 2006.

Reviews of sample data were performed. Documentation reviewed included requests for proposals, supplier bids, purchase orders, invoices, payment documents, and other supporting documentation. In addition, the classification of expenditures was reviewed to determine if project related expenditures and normal operating expenditures were accurately recorded in Metro's financial system. The value of the sample reviewed was \$19.4 million. This is greater than the total expenditures because activity was reviewed to determine if it was properly excluded from the project. Details of the scope are addressed in the Scope and Methodology section of this report. The examination would not reveal all non-compliance issues because it was based on selective review of data.

Opinion

In order to ensure responsibility for corrective actions was properly identified, the opinion was broken into three components. This focuses accountability on the three major entities (MetroSafe, Project Management, and Purchasing) in the MetroSafe project. A separate opinion was issued for each entity. The internal control ratings are on page 7 of this report. These ratings quantify the opinions regarding the internal controls, and identify areas requiring corrective action.

Purchasing

It is our opinion that Purchasing's internal controls for the administration of the MetroSafe project are weak. The main issues are as follows.

- **Contractual Documentation - Competitive Negotiation Process.** Competitive negotiation is one of Metro's authorized procurement methods and has been used with the MetroSafe project. Purchasing representatives were not necessarily involved in the negotiations. Purchasing would be notified of the award recommendation and a purchase order would be issued. However, the scope of work or cost may have changed during the negotiations, and proper documentation was not provided to Purchasing. This increases the risk that contracts were not properly executed yet purchase orders issued, and goods / services procured.
 - There were three cases in which contracts were competitively negotiated, but Purchasing did not have complete documentation. The contracts and other supporting documentation were eventually obtained from the various Agencies involved in the project. The original amount of these three contracts was \$13,643,672.
 - Purchasing is the official custodian of Metro contracts (except for professional services contracts), but is dependent on the various Agencies to provide the proper documentation for negotiated contracts. Since there is not a central depository of MetroSafe project documents, and various Agencies are involved in the project, the risk of improper documentation is increased.

Project Management

It is our opinion that Project Management's internal controls for the administration of the MetroSafe project are weak. The main issues are as follows.

- **Competitive Negotiations Documentation.** Project Management has been integral in negotiating (via the competitive negotiation process) contracts for the MetroSafe project. The results of these negotiations have not been consistently documented and provided to Purchasing. The lack of documentation increases the risk of contractual non-compliance, and could create unnecessary risk exposures for Metro if disputes with the supplier later arise. It also makes verifying compliance overly dependent on the memory of key individuals.
 - For this review, there were four cases where this occurred. The value of the contracts with these four suppliers was \$13,763,672.

MetroSafe

It is our opinion that MetroSafe's internal controls for the administration of the MetroSafe project are weak. The main issues are as follows.

- **Financial System Account Structure.** The total population of expenditures related to the MetroSafe project is not readily available using the Metro financial system (LeAP). Although the financial system has the capability of reporting expenditures posted to various accounts to one project, this functionality is not used for the MetroSafe project.
 - The MetroSafe project expenditures have been posted to various accounts. The only way to identify them is a manual review of activity based on information provided by MetroSafe, Project Management, Information Technology, Finance and other Departments. This weakens the reliability of project expenditure information reported and increases the risk that monitoring and oversight is not adequate to ensure accountability.
 - Based on the review of expenditures, the total expenditures for the MetroSafe project from inception through June 30, 2006 were \$19,209,410. A breakdown by fiscal year is in Table 1 in the appendix of this report. It is important to note that while there is some assurance that this is complete and accurate, there is the possibility that transactions were overlooked. Best efforts were made to provide reasonable assurance, but the financial system issue impacts the ability to provide absolute assurance that this is complete and accurate.
- **Documentation Issues.** The lack of adequate support documentation impaired the ability to verify compliance with contractual terms. These documentation issues were primarily attributable to MetroSafe's administration of activity, and can therefore be unilaterally addressed by MetroSafe. The total amount of expenditures associated with these issues was approximately \$560,164. The documentation issues are categorized as Contracts and Invoices.

The implementation of the recommendations in this report will help improve the effectiveness of the internal control structure for the MetroSafe project.

Corrective Action Plan

The report was shared with MetroSafe, Project Management, and Purchasing. Each entity was asked to respond to their section. It is important to recognize the necessity of this approach, primarily because of the cross-departmental nature of the MetroSafe project. Unilateral actions by one entity would not adequately address the issues noted.

Each entity's corrective action plans are included in their respective Observations and Recommendations section of this report. The corrective action plans demonstrate a commitment to addressing the issues noted. The Office of Internal Audit will continue to work with all entities to ensure the actions taken are effective in addressing the issues noted.

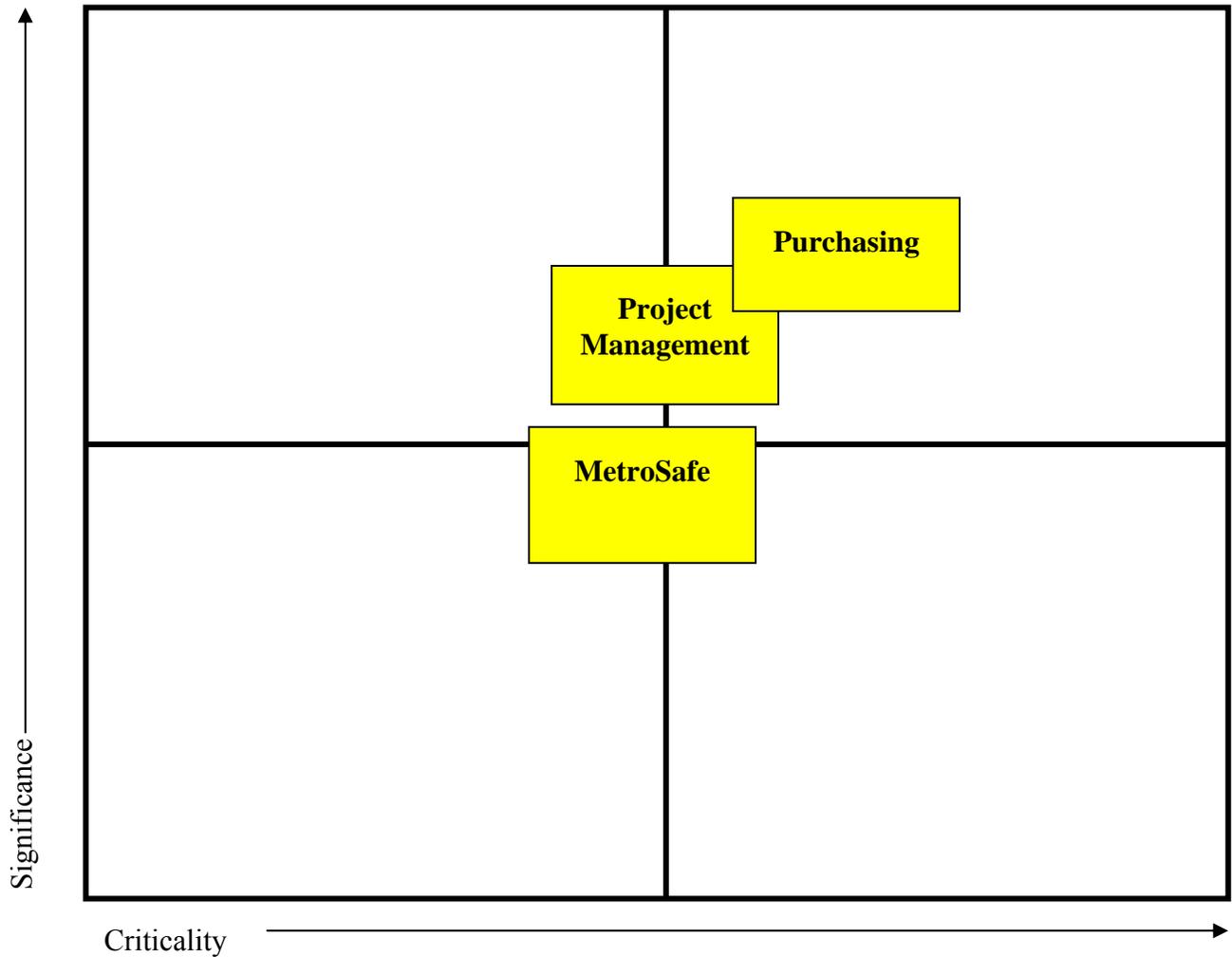
Sincerely,



Michael S. Norman, CIA, CFE, CGAP
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Director of Public Protection
Director of MetroSafe
Director of Public Works and Assets
Director of Finance
Director of Purchasing

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	<u>Satisfactory</u> Not likely to impact operations.	<u>Weak</u> Impact on operations likely contained.	<u>Inadequate</u> 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

MetroSafe is a multi-million dollar emergency communications system that allows Police, Fire, and Emergency Medical Services in Louisville and the 13 surrounding counties to communicate with one another. Dispatchers for Police, Fire, and Emergency Medical Services are now located in one facility, making it faster for first responders to reach any emergency situation. Equipped with state of the art technology, equipment, and trained staff, MetroSafe is prepared to quickly handle any emergency condition that may arise.

The MetroSafe project consists of acquiring a facility; developing and implementing adequate infrastructure to support voice, wireless and data communications; implementing proper security; acquiring and implementing public safety applications to support consolidated communications and public safety interoperability.

Due to the size and complexity of the project, a phased approach is being used to implement the project. According to MetroSafe information, the project has four phases:

Phase I – Combine all public safety communications into one facility at 768 Barret Avenue. Completed September 2005 at a cost of \$8,000,000.

Phase II – Implement new Computer Aided Dispatch (CAD) system. Completed September 2005 at a cost of \$7,100,000.

Phase III – Remediation of permanent MetroSafe facility and migration of operations. Implementation of Mobile Voice Radios System.

Phase IV – Radio system subscriber units.

It is important to note that the MetroSafe project involves more than the MetroSafe division of Metro's Emergency Management Agency. Other Metro Departments have critical roles in the project. These roles include evaluating bids and negotiating contracts for the project. This includes Project Management, Purchasing, and Information Technology. The Crime Commission and the Police Department have had significant roles in the project.

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 has not performed any previous reviews of the MetroSafe project expenditures.

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

An understanding of the internal control structure was obtained 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 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 preliminary draft report was issued to MetroSafe, Project Management, and Purchasing on January 29, 2007. A final draft report was issued to the same entities on February 28, 2007.

An exit conference was held at the Office of Internal Audit on March 9, 2007. Attending were Douglas Hamilton representing MetroSafe; Ted Pullen representing Project Management; Craig Bowen representing Purchasing; Ingram Quick and Michael Norman representing the Office of Internal Audit. Final audit results were discussed. An additional meeting was held at the Department of Finance on March 28, 2007. Attending were Jane Driskell representing Finance, Craig Bowen representing Purchasing; and Michael Norman representing the Office of Internal Audit.

The views of the responsible officials are included as corrective action plans in the applicable Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

*“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or **no longer than** 30 days of receipt of the draft report.”*

The **MetroSafe** response was received on March 9, 2007, which was within this required timeframe.

The **Project Management** response was received on March 30, 2007, which was within this required timeframe.

The **Purchasing** response was received on March 30, 2007, which was within this required timeframe.

Scope and Methodology

The review consisted of two distinct steps:

1. Identifying the population of expenditure activity for the MetroSafe Project
2. Reviewing a sample of expenditure transactions

1. Population of Expenditure Activity

Due to the account structure in Metro's financial system (LeAP), identifying the population of expenditure activity was cumbersome and manually intensive. The issue with the financial system account structure is addressed in the Observations and Recommendations section of this report. For purposes of the review, MetroSafe project expenditures exclude routine operating costs. The following steps were taken to identify the population of expenditure activity.

EMA / MetroSafe Capital

- Capital financial reports were generated from the financial system for Emergency Management Agency / MetroSafe. These reports covered the period beginning April 2004 and ending June 2006.
- The financial reports were manually reviewed to identify financial system accounts that appeared specific to the MetroSafe project.
- Detailed transaction reports were generated from the financial system for the accounts identified. These transactions were included in the population.

EMA / MetroSafe Operating

- Operating financial reports were generated from the financial system for Emergency Management Agency / MetroSafe. These reports covered the period beginning April 2004 and ending June 2006.
- The financial reports were manually reviewed to identify financial system accounts that appeared specific to the MetroSafe project. This is dependent on the integrity of the data recorded in the financial system. EMA / MetroSafe and Metro Finance personnel were consulted to help identify all MetroSafe Project accounts. *It should be noted that while this represents a best effort at identifying activity, it does not provide absolute assurance that all transactions were identified.*
- Detailed transaction reports were generated from the financial system for the accounts identified.
- The detailed transaction reports were manually reviewed to identify expenditures in which the description included "MetroSafe". These transactions were included in the population.

Other Metro Capital

- Capital financial reports were generated from the financial system for the following departments: Police, Fire, Emergency Medical Service, General Services Administration and Information Technology. These reports covered the period beginning April 2004 and ending June 2006.
- The financial reports were manually reviewed to identify financial system accounts that appeared specific to the MetroSafe project. This is dependent on the integrity of the data recorded in the financial system. Applicable Metro Department personnel were consulted to help identify all MetroSafe Project accounts. *It should be noted that while this represents a best effort at identifying activity, it does not provide absolute assurance that all transactions were identified.*
- Detailed transaction reports were generated from the financial system for the accounts identified.
- The detailed transaction reports were manually reviewed to identify expenditures in which the description included “MetroSafe”. These transactions were included in the population.

2. Expenditure activity review

Using the population of expenditure activity, a sample of transactions was selected for review. The sample was chosen using the following criteria:

- All expenditures greater than \$10,000.
- Any expenditures that appeared to be normal operating costs, thus should not be included in project expenditures.
- One transaction from every financial system center / unit activity.
- One transaction from every financial system account.
- One transaction from every supplier with a cumulative total paid greater than \$50,000.
- Any expenditures that were described as change orders.
- Any expenditures that appeared unexpected or unusual (e.g., no check issued but classified as a payable).

The total sample size was 145 transactions, which is approximately 36% of the total population of transactions. The value of the sample reviewed was \$19.4 million. This is greater than the total project expenditures noted in Table 1 in the appendix. This is attributable to reviewing transactions to determine if they were properly excluded from the project.

The primary focus of the review was determining if the expenditure activity complied with laws, policy, and other regulatory guidelines, including contractual price terms. For the sample selected, payment documents, contracts, request for proposals, bids, and other supporting documentation were requested. The documentation was reviewed to determine compliance. The review would not reveal all non-compliance issues because it was based on selective review of data.

Observations and Recommendations

Presentation

MetroSafe, Project Management, and Purchasing are integral components of the MetroSafe project. In order to facilitate accountability for corrective actions, the observations and recommendations are presented separately for each of these entities. A separate internal control opinion was issued for each entity. The observations, which begin on the next page, are presented in the following order:

- Purchasing
- Project Management
- MetroSafe

Risks

The observations focus primarily on contractual compliance issues. There are many risks associated with these issues, including the following:

- Violating procurement laws, policies, and guidelines
- Paying improper amounts, including goods / services not covered by contract, or overpaying amounts
- Payment for goods and services not meeting specifications
- Accountability for public funds
- Reputation could be damaged
- Litigation exposure with suppliers due to undocumented terms and agreements
- Reimbursement to grantors for funds expended
- Loss of existing grant funds and / or future grant awards
- Exclusion of potential suppliers, resulting in Louisville Metro not getting best available price

Purchasing

There were issues with Purchasing's administration of MetroSafe project activity. As a result, the internal control structure is weakened and its effectiveness impaired.

- **Contractual Documentation - Competitive Negotiation Process.** Competitive negotiation is one of Metro's authorized procurement methods and has been used with the MetroSafe project. Purchasing representatives were not necessarily involved in the negotiations. Purchasing would be notified of the award recommendation and a purchase order would be issued. However, the scope of work or cost may have changed during the negotiations, and proper documentation was not provided to Purchasing. This increases the risk that contracts were not properly executed yet purchase orders issued, and goods / services procured.
 - There were three cases in which contracts were competitively negotiated, but Purchasing did not have complete documentation. The contracts and other supporting documentation were eventually obtained from the various Agencies involved in the project. The original amount of these three contracts was \$13,643,672.
 - Purchasing is the official custodian of Metro contracts (except for professional services contracts), but is dependent on the various Agencies to provide the proper documentation for negotiated contracts. Since there is not a central depository of MetroSafe project documents, and various Agencies are involved in the project, the risk of improper documentation is increased.
- **Contractual Documentation – Sole Source Purchase.** There was one supplier in which a sole source purchase order was used. The purchase order was issued to another supplier, and it was then changed to this supplier, which actually provided the goods. There was no documentation explaining this change or verification that this supplier was a sole source provider. The only price documentation was the invoice. As a result, contractual compliance could not be verified. There were two transactions for this supplier totaling \$44,940.

Recommendations

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

- ✓ Whenever the competitive negotiation method is used, Purchasing should ensure it has a documented agreement of scope and cost prior to issuing a purchase order.
- ✓ Purchasing should consider formal active participation in all competitive negotiation activities. This would help ensure it has proper documentation of contractual agreements. If not involved in the actual negotiations, Purchasing should at least be

notified that they are occurring. Since Purchasing is the procurement subject matter expert, their involvement would benefit all Agencies involved in the MetroSafe project. Purchasing is also an integral component of the internal control structure to ensure compliance with applicable laws and policy.

- ✓ Regardless of the level of Purchasing's involvement, procedures should be implemented to ensure that proper documentation for negotiated contracts is provided prior to issuance of a purchase order.
- ✓ Purchasing serves as the official custodian for Louisville Metro contracts (except professional services contracts). Their files should contain adequate documentation to record the purpose and authorization of each purchase order issued.
- ✓ The feasibility of establishing an intranet SharePoint site for the MetroSafe project should be explored. This site would allow the various Metro agencies involved with the project to store documents in one central electronic location. This would allow others to access the documents as needed. A central electronic depository of documents helps increase the efficiency of the administrative oversight of the project.
- ✓ Purchasing should ensure appropriate sole source documentation is provided by Metro Agencies requesting procurements under this method. The documentation should be on file prior to a purchase order being issued. In addition, while Purchasing may not have the resources to verify all sole source determinations requested by Agencies, spot checks could be performed for any that appear questionable. These verifications should be documented.
- ✓ Louisville Metro's procurement policy, which incorporates State model procurement, should be followed. All personnel involved in the procurement of goods and services should be aware of the requirements, and held accountable for adhering to them. Additional training of key Agency personnel, especially those involved in procurement of goods and services may be necessary. It is important that Agencies understand their responsibilities and provide necessary documentation to Purchasing.
- ✓ Routine supervisory review should be performed to assess the completeness of files and the accuracy of the activity, including the adherence to procurement policy. These reviews, and any necessary corrective actions, should be documented.

Purchasing Corrective Action Plan

Purchasing agrees that participation at competitive negotiations is necessary. Prior to this audit, purchasing did begin to require a purchasing agent to be present at all major bid evaluations and negotiations sessions. If staffing constraints prohibit attendance on Purchasing's part, procedures will be developed to ensure that evaluation information and negotiation information is provided to Purchasing so that contract files can be accurate as to the information they contain.

Purchasing will look into the possibility of establishing a Sharepoint site for the MetroSafe project. We are currently using Sharepoint for all our construction bids. The site contains bid documents, contracts, purchase orders, change orders, bid responses etc. Purchasing started this last year as a pilot project to see if it would work and how it would be received. So far we have been pleased with the results and look to expand its use.

Sole source review is done at the time the request is made. Checks are performed for any that seem questionable. If we do not agree with the request it is simply denied and sent back to the agency that made the request. A new sole source request form was developed by the Financial Services Division of Finance and Purchasing and is on the Intranet now for agencies to use.

Training is of utmost importance to Purchasing and the following are some of the steps we have taken in this area.

- Approximately one year ago Purchasing instituted a once per month open door meeting for any Metro employee wishing to attend. The intent was to provide an ongoing education opportunity for Metro personnel to better understand the procurement process and for Metro agencies to send new employees that need to be versed on the procurement process.
- Purchasing also conducts weekly staff meetings for our own personnel to discuss procurement policies and issues.
- We are also currently reviewing opportunities to publish via Sharepoint easy to follow guidelines and forms for Metro agencies.
- Purchasing also has a representative at the weekly project managers meeting of the Works and Assets department to discuss policies and issues.
- We have also just started a once a month meeting with project managers from all the major departments that are involved in project type work.
- Finance and Purchasing have also started making appointments with Metro agencies to speak with key personnel in the business offices and those involved in the procurement process. This will afford an excellent opportunity to inform them of the necessity to include Purchasing in bid evaluations and contract negotiations.

Project Management

There were issues with Project Management's administration of MetroSafe project activity. As a result, the internal control structure is weakened and its effectiveness impaired.

- **Competitive Negotiations Documentation.** Project Management has been integral in negotiating (via the competitive negotiation process) contracts for the MetroSafe project. The results of these negotiations have not been consistently documented and provided to Purchasing.
 - For this review, there were four cases where this occurred. The value of the contracts with these four suppliers was \$13,763,672.

The lack of documentation increases the risk of contractual non-compliance, and could create unnecessary risk exposures for Metro if disputes with the supplier later arise. It also makes verifying compliance overly dependent on the memory of key individuals.

Recommendations

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

- ✓ Project Management should implement procedures to ensure that the results of competitive negotiations are properly documented. This should focus primarily on ensuring the agreed upon scope of work and price is properly documented and submitted to Purchasing. Enough documentation should be provided to allow an independent person to determine the agreed upon contractual terms without input from Project Management personnel.
- ✓ Project Management should evaluate the feasibility of requesting formal participation of Purchasing in all competitive negotiation activities. Since purchasing is the subject matter expert for procuring goods and services, their involvement would help ensure all necessary documentation is maintained.
- ✓ Louisville Metro's procurement policy, which incorporates State model procurement, should be followed. All personnel involved in the procurement of goods and services should be aware of the requirements, and held accountable for adhering to them. Additional training of key personnel may be necessary to ensure consistent compliance.
- ✓ Routine supervisory review should be performed to assess the completeness of files and the accuracy of the activity, including the adherence to procurement policy. These reviews, and any necessary corrective actions, should be documented.

Project Management Corrective Action Plan

Purchasing will be involved in competitive negotiations. This policy has already been implemented in all projects. We have issued instruction to all project managers that no negotiations on price can be held without a representative from Purchasing.

Competitive negotiations will be formally documented when completed. This policy has been put in place. Any negotiations will be summarized in a memo to be submitted to Purchasing for inclusion in the contract file.

Project Management approval of invoices indicates that work was performed / goods received and complies with contractual agreement. This has been Project Management's policy and practice since its creation in 2004. Since we have always complied with this, no further action is needed.

MetroSafe

There were issues with MetroSafe's administration of MetroSafe project activity. As a result, the internal control structure is weakened and its effectiveness impaired.

- **Financial System Account Structure.** The total population of expenditures related to the MetroSafe project is not readily available using the Metro financial system (LeAP). Although the financial system has the capability of reporting expenditures posted to various accounts to one project, this functionality is not used for the MetroSafe project.
 - **Manual Identification of Activity.** The MetroSafe project expenditures have been posted to various accounts. The only way to identify them is a manual review of activity based on information provided by MetroSafe, Project Management, Information Technology, Finance and other Departments. This weakens the reliability of project expenditure information reported and increases the risk that monitoring and oversight is not adequate to ensure accountability.
 - **Total Expenditures.** Based on the review of expenditures, the total expenditures for the MetroSafe project from inception through June 30, 2006 were \$19,209,410. A breakdown by fiscal year is in Table 1 in the appendix of this report. It is important to note that while there is some assurance that this is complete and accurate, there is the possibility that transactions were overlooked. Best efforts were made to provide reasonable assurance, but the financial system account structure issue impacts the ability to provide absolute assurance.

It is important to recognize that MetroSafe was not responsible for the establishment of the financial system account structure. However, MetroSafe is more accountable than Purchasing or Project Management for initiating corrective action.

- **Documentation Issues.** The lack of adequate support documentation impaired the ability to verify compliance with contractual terms. These documentation issues were primarily attributable to MetroSafe's administration of activity, and can therefore be unilaterally addressed by MetroSafe. The total amount of expenditures associated with these issues was approximately \$560,164. The two main issues are as follows.
 - **Contracts - Fixed Percentage Price Reduction.** For four suppliers, the contract states the price of the goods or services will be a fixed percentage price reduction discounted from the manufacturer's list price at the time of purchase. The manufacturer's list price at the time of purchase was not documented. Therefore, there was no way to determine if the amount charged was in accordance with the contractual terms. For these four suppliers, there were a total of eight transactions totaling \$216,113.
 - **Invoices – Insufficient Detail.** There were two suppliers in which compliance with contractual price terms could not be verified. The documentation provided with the supplier's invoices was insufficient to allow verification to the contract.

- For one supplier, there was a price contract for network wiring installation. The supplier’s invoices did not contain sufficient supporting documentation to allow verification that work performed was in compliance with the contractual price terms. This involved five transactions at a total of \$285,276.
- For the other supplier, several of the invoices included additional charges for “other direct costs”. No other supporting documentation was provided for these charges so they could not be verified to the contractual price terms. This involved nineteen transactions, with undocumented costs totaling \$58,775.

Recommendations

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

- ✓ MetroSafe personnel should consult with Metro Finance to address the financial system account structure issue. Modifying the reporting structure should not require a major change and should be fairly easy to accomplish. This will facilitate the identification of MetroSafe project expenditures and enable MetroSafe to monitor and reconcile expenditures. This also helps ensure that the financial reports reflect complete expenditure activity for the MetroSafe project.
- ✓ Activity processed using contracts in which the price terms are a discount from current prices should be properly documented. The documentation should include the price at the time the order was placed, and the discounted price that will be invoiced. This should be part of the supporting documentation with the payment document.
- ✓ As part of the payment approval process, appropriate personnel should thoroughly review invoices to ensure accuracy, appropriateness, and agreement to contractual terms. Supporting documentation should be explicit as to the services / work performed or goods provided. Enough documentation should be provided to allow independent verification of expenditures to the contractual terms. This should be accomplished solely by reviewing the supporting documents.
- ✓ Louisville Metro’s procurement policy, which incorporates State model procurement, should be followed. All personnel involved in the procurement of goods and services should be aware of the requirements, and held accountable for adhering to them. Additional training of key personnel may be necessary to ensure consistent compliance.
- ✓ Routine supervisory review should be performed to assess the completeness of files and the accuracy of the activity, including the adherence to procurement policy. These reviews, and any necessary corrective actions, should be documented.

MetroSafe Corrective Action Plan

MetroSafe will meet with their Budget Analyst to come up with a coding system that will better assist us in being able to identify which accounts are MetroSafe only projects. This will hopefully make it easier to get a better handle on what is actually being spent on this project.

We will make sure that all backup is received when items are purchased under contract which provides a percentage discount from a list price. The list price will be kept with the invoice so it will be easier to obtain.

All State contract prices will also have the state contract attached to the invoice.

MetroSafe's Business Manager will make sure to review all purchase requests thoroughly and make sure all necessary documentation is attached to that invoice before processing.

If needed, training will be provided to MetroSafe personnel, project committee leaders, and those we depend on in Metro Project Management, Metro IT, and Metro Purchasing to ensure they understand their roles and proper contract requirements in the procurement process for our project.

Quarterly file reviews will be done to make sure all records and documents are being processed correctly.

Appendix – Total Expenditures

Table 1 summarizes the total expenditures for the MetroSafe project from inception through June 30, 2006. This is based on the review of expenditures. It is important to note that while there is some assurance that this is complete and accurate, there is the possibility that transactions were overlooked. Best efforts were made to provide reasonable assurance, but the financial system issues impact the ability to provide absolute assurance that this is complete and accurate.

Table 1 – MetroSafe Project Expenditures (Fiscal Year 2004 – Fiscal Year 2006)				
LeAP Account	FY 2004	FY 2005	FY 2006	Grand Total
E911 Wired - EMA - E911 - ICP Grant Match		\$209,968	\$1,789,192	\$1,999,160
Federally Funded - EMA - Emergency Equipment & Supplies - ICP(Interoperability Com - Federal Funds)		\$635,339	\$5,364,315	\$5,999,654
Federally Funded - Metro Police - 2003 COPS Interoperability - COPS Interoperability Study	\$157,165	\$41,535		\$198,700
General Fund - EMA - EMA MetroSafe Administration - EMA/MetroSafe Administration			\$238,445	\$238,445
General Fund - EMA - MetroSafe Operations - MetroSafe Operating		\$383,252		\$383,252
General Fund - EMA - MetroSafe Operations - MetroSafe Operations		\$25,726	\$15,644	\$41,370
GO Bonds 04 Foundation Fu-Facilities Management-Building Improvements Cap-ADA Improvements			\$34,597	\$34,597
MetroSafe - EMA - Building Improvements Capital - MetroSafe Building Renovation		\$605,630	\$623,380	\$1,229,010
MetroSafe - EMA - Property Acquisition - MetroSafe Project		\$3,999,602		\$3,999,602
Pass Thru Federal - EMA - Emergency Equipment & Supplies - SHSP CAD Project			\$3,061,996	\$3,061,996
Pass Thru Federal - EMA - Emergency Equipment & Supplies - UASI Interoperable Communication			\$982,126	\$982,126
Pass Thru Federal - EMA - Emergency Equipment & Supplies - UASI Interoperable Communication Equipment			\$781,908	\$781,908
Pass Thru Federal-Facilities Management-Building Improvements Cap-CIP Proj Security Improv			\$14,500	\$14,500
Pass Thru Federal-Facilities Management-Building Improvements Cap-Urban Gov Ctr CIP Project			\$245,090	\$245,090
Grand Total	\$157,165	\$5,901,053	\$13,151,192	\$19,209,410