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Report

Office of Internal Audit

Louisville Metro Government

FY 2007 Supplier Payment Timeliness

August 2007



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Payment Timeliness

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Transmittal Letter

August 31, 2007

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

Subject: Compliance Review of FY 2007 Supplier Payment Timeliness

Introduction

A compliance review of fiscal year 2007 payments to suppliers was performed. All Louisville Metro Government departments were included in the review. The objective was to determine if the payments were in compliance with Kentucky Revised Statute 65.140. This was an analytical review using computer assisted audit tools and Metro's financial system.

Background

KRS 65.140 applies to local governments. It requires that payments to vendors be made within 30 days of receipt of the vendor's invoice. The entire KRS 65.140 is as follows:

“KRS 65.140 Local governments required to pay for purchases within 30 days – Interest penalty.

- (1) As used in this section, unless the context otherwise requires, “purchaser” means any city, county, or urban-county government which receives goods or services from a vendor.
- (2) Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor.
- (3) An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after

the thirty (30) working days which followed receipt of vendor's invoice by the purchaser.

Effective: July 13, 1990

History: Created 1990 Ky. Acts ch. 154, sec. 1, effective July 13, 1990."

This was a scheduled compliance review.

Scope

Louisville Metro's supplier payments were reviewed to determine compliance with KRS 65.140 requirements. The review analyzed payment timeliness using computer assisted audit tools (CAATs) and data from Metro's financial system. All accounts payable transactions from the period July 1, 2006 through June 30, 2007 were included in the review.

A sample of supporting payment documentation was reviewed in order to obtain reasonable assurance of the financial system's data integrity (e.g., accuracy, reliability). Even with this assurance, it is important to note that the review was dependent on the accuracy of the data within the financial system. Therefore, inaccurate invoice or payment dates would impact the results. In addition, the actual invoice receipt date is not recorded in the financial system so the invoice date was used. This could also impact the results.

The review 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. The details of the scope and methodology of the review will be addressed in the Results and Recommendations section of this report.

Summary of Results

The results indicate opportunities exist to increase compliance with KRS 65.140. These opportunities are throughout the Louisville Metro enterprise. Ultimately, it is the responsibility of each Metro department to ensure its supplier payment activity is in compliance with KRS 65.140. Specific results include the following.

- **Enterprise.** Louisville Metro Government did not comply with supplier payment timeliness requirements in 10.9% of its fiscal year 2007 payments. Non-compliance was consistent for all four quarters of the fiscal year, ranging from 9.8% to 11.6%.
- **Department.** For individual departments, non-compliance ranged from less than 1% to 33.9% of their payments for the fiscal year. Eight of the departments exceeded a total of 20% non-compliance for their fiscal year 2007 payments.
- **Penalty.** If the 1% penalty was applied to the transactions that were not in compliance, Louisville Metro would have had to pay an additional \$318,832. Individual department's total penalty amounts ranged from \$1 to \$46,539. Twelve of the departments exceeded a total of \$10,000 in penalties for their fiscal year 2007 payment activity.

Details are in the Results and Recommendations section of this report.

Corrective Action Plan

The focus of this review was the Louisville Metro enterprise, not an individual department. Each Louisville Metro department is responsible for ensuring its payment activity is in compliance with KRS 65.140. To facilitate appropriate corrective actions, this report will be provided to all Louisville Metro departments. Each department should be accountable for reviewing its policies and procedures to ensure controls are effective in mitigating the non-compliance risk. This includes implementing necessary corrective actions as well as recommendations contained in this report.

Conclusion

Opportunities exist to improve Louisville Metro's compliance with the supplier payment timeliness requirements of KRS 65.140. All Louisville Metro departments are responsible for ensuring their payments are in compliance with requirements. The implementation of the recommendations in this report will help increase Louisville Metro's compliance.

Sincerely,



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

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Department / Division Directors (e-file)
Department / Division Business Managers (e-file)
Louisville Metro External Auditors

Results and Recommendations

Scope and Methodology

Louisville Metro's supplier payments were reviewed to determine compliance with KRS 65.140 requirements. The review analyzed payment timeliness using computer assisted audit tools (CAATs) and data from Metro's financial system. All accounts payable transactions from the period July 1, 2006 through June 30, 2007 were included in the review.

Using CAATs, the payment time was calculated by using the invoice date and check date recorded in the financial system. KRS requires payment within 30 working days of receipt of the invoice. Since invoice receipt date is not recorded in Metro's financial system, the actual invoice date was used for the calculation. Also, in order to account for non-working days and holidays, a threshold of 45 calendar days was used. Therefore, any payments occurring within 45 calendar days of the invoice date were considered timely.

In order to obtain reasonable assurance of the financial system's data integrity (e.g., accuracy, reliability), a sample of supporting payment documentation was reviewed. Even with this additional assurance, it is important to note that this review was dependent on the accuracy of the data within the financial system. Therefore, inaccurate invoice or payment dates would impact the timeliness calculation and departmental results.

The results indicate opportunities exist to increase compliance with KRS 65.140. The results are presented as follows.

#1 - Enterprise Results

#2 - Department Results

Details of these begin on the following page.

#1 – Enterprise Results

Table 1 lists Louisville Metro Government's number of untimely and timely payments as a percentage of total payments. The results are presented as the total for fiscal year 2007, as well as by each quarter.

- Louisville Metro Government did not comply with supplier payment timeliness requirements in 10.9% of its fiscal year 2007 payments. Of the 134,494 payments, 14,608 did not comply with timeliness requirements.
- Non-compliance was consistent across all four quarters of the fiscal year, ranging from 9.8% to 11.6%.

Table 1 – Fiscal Year 2007 Louisville Metro Results					
	Total	Quarter 1	Quarter 2	Quarter 3	Quarter 4
Untimely	10.9%	9.8%	11.6%	11.1%	10.7%
Timely	89.1%	90.2%	88.4%	88.9%	89.3%

#2 – Department Results

Table 2 lists the results for each Louisville Metro department. The percentages are the number of untimely payments out of all the department's payments. This is the actual number of payments, not the dollar value of the transactions. Quarterly results are presented as well as an overall total. The 1% penalty amount is the dollar value of the penalty for all of the department's untimely payments. It should be noted that the penalty amount was calculated on one 30-day untimely period for each invoice. For payments exceeding one 30-day period, additional penalty costs could have been applied, which would increase the penalty amount.

- Individual department's untimely payments ranged from less than 1% to 33.9% of their total payments for the fiscal year. Eight of the departments exceeded a total of 20% untimely for their fiscal year 2007 payments.
- If the 1% penalty was applied to these transactions, Louisville Metro would have had to pay an additional \$318,832. The individual department's total penalty amount ranged from \$1 to \$46,539. Twelve of the departments exceeded a total of \$10,000 in potential penalties for their fiscal year 2007 payments.

Table 2 – Fiscal Year 2007 Department Results						
Department	Total	Q1	Q2	Q3	Q4	1% Penalty
Air Pollution Control	5.9%	6.7%	8.5%	6.0%	3.2%	\$427
Animal Services	14.9%	8.7%	7.4%	17.8%	20.1%	\$691
Balance Sheet ²	0.5%	0.5%	0.4%	0.6%	0.7%	\$1,822
Board of Elections ¹	0.4%	4.8%	0.3%	6.0%	0.3%	\$30
Commonwealth Attorney ¹	6.8%	0.0%	12.1%	11.1%	0.0%	\$23
Community Action Partnership ¹	5.4%	3.6%	8.8%	2.2%	6.4%	\$10,361
Community Development Cabinet Secretary	25.7%	11.8%	26.8%	33.9%	25.3%	\$1,743
Coroner ¹	12.1%	24.1%	10.8%	2.3%	15.6%	\$62
Corrections	33.9%	54.7%	49.6%	21.8%	17.9%	\$42,119
County Attorney ¹	13.7%	19.9%	3.2%	13.7%	14.6%	\$2,210
County Clerk ¹	3.2%	5.7%	3.2%	0.0%	3.8%	\$98
Criminal Justice Commission	1.9%	0.0%	0.0%	0.0%	4.3%	\$1,013
Debt Service ²	0.0%	0.0%	0.0%	0.0%	0.0%	\$0
EMA / MetroSafe	8.3%	6.5%	6.6%	8.7%	11.3%	\$3,814
Emergency Medical Services	20.1%	12.0%	28.9%	22.0%	18.4%	\$5,698
Facilities Management	11.1%	25.0%	0.0%	0.0%	0.0%	\$4

Table 2 – Fiscal Year 2007 Department Results

Department	Total	Q1	Q2	Q3	Q4	1% Penalty
Finance	5.8%	0.9%	4.6%	6.8%	10.1%	\$11,099
Finance and Administration Cabinet Secretary	0.0%	0.0%	0.0%	0.0%	0.0%	\$0
Fire Department	10.8%	14.5%	11.1%	9.3%	9.8%	\$7,314
General Revenue ²	3.9%	1.0%	4.9%	2.4%	6.4%	\$586
General Services Administration	14.0%	11.4%	12.7%	15.5%	15.8%	\$46,539
Health	8.2%	9.3%	8.6%	7.5%	8.0%	\$12,302
Health and Family Services Cabinet Secretary	26.7%	0.0%	30.0%	70.0%	13.3%	\$5,977
Health Insurance ²	0.0%	0.0%	0.0%	0.0%	0.0%	\$0
Housing and Community Development	3.0%	2.4%	3.4%	3.0%	3.4%	\$22,782
Human Relations Commission	3.1%	2.6%	3.8%	3.6%	2.8%	\$150
Human Resources	30.9%	3.5%	2.6%	2.6%	48.7%	\$710
Human Services	2.9%	2.7%	4.3%	3.1%	1.8%	\$1,323
Information Technology	13.3%	11.6%	9.6%	15.1%	15.0%	\$11,910
Inspections, Permits and Licenses	18.1%	16.2%	12.7%	22.1%	19.1%	\$947
Insurance and Risk Management ²	6.4%	0.0%	9.8%	3.4%	8.6%	\$597
Internal Audit	0.9%	6.7%	0.0%	0.0%	0.0%	\$1
Kentuckiana Works ¹	21.3%	9.8%	32.8%	21.0%	13.9%	\$6,703
Library	7.4%	5.7%	8.3%	9.2%	6.0%	\$7,600
Mayors Office	9.0%	4.0%	10.4%	9.9%	11.2%	\$231
Metro Council	15.0%	9.2%	16.1%	19.2%	14.9%	\$1,462
Metro Development Authority	12.2%	13.8%	13.1%	9.0%	12.9%	\$17,483
Neighborhoods and Community Outreach	21.0%	16.7%	27.1%	23.9%	16.6%	\$4,294
Neighborhoods, Parks and Cultural Affairs Cabinet Secretary	1.9%	0.0%	0.0%	2.3%	5.4%	\$4
Other Statutory Obligations ¹	2.0%	1.8%	2.4%	0.7%	2.1%	\$917

Table 2 – Fiscal Year 2007 Department Results

Department	Total	Q1	Q2	Q3	Q4	1% Penalty
Outside Agencies to be Billed ²	0.0%	0.0%	0.0%	0.0%	0.0%	\$0
Parks	8.8%	9.7%	9.6%	7.5%	8.7%	\$14,248
Planning and Design Services	10.3%	6.3%	12.4%	15.0%	7.1%	\$6,816
Police	20.9%	20.8%	19.9%	23.8%	19.1%	\$20,300
Policy and Strategic Planning	8.6%	3.1%	17.1%	5.0%	7.5%	\$60
Public Protection Cabinet Secretary	3.3%	0.0%	0.0%	11.1%	0.0%	\$2
Public Works	10.6%	9.9%	11.2%	9.7%	11.6%	\$16,617
Public Works and Services Cabinet Secretary	0.0%	0.0%	0.0%	0.0%	0.0%	\$0
Redevelopment Authority ¹	8.0%	10.0%	0.0%	0.0%	10.0%	\$73
Revenue Commission ¹	0.0%	0.0%	0.0%	0.0%	0.0%	\$0
Solid Waste Management	8.3%	6.3%	10.5%	8.1%	8.2%	\$7,727
Suburban Fire Districts ¹	0.0%	0.0%	0.0%	0.0%	0.0%	\$0
Waterfront Development Corporation ¹	15.9%	15.1%	16.7%	19.1%	13.7%	\$3,509
Youth Detention Services	18.0%	19.1%	19.7%	19.0%	15.6%	\$4,123
Zoo	15.6%	21.1%	16.6%	15.7%	10.9%	\$14,312
Total - Louisville Metro	10.9%	9.8%	11.6%	11.1%	10.7%	\$318,832

¹ Louisville Metro Government provides fiscal agent services to these entities, including accounts payable transactions. The individual entities are accountable for complying with KRS 65.140 requirements.

² These transactions are not charged to an individual department.

Recommendations

It is ultimately the responsibility of each Metro department to ensure its supplier payment activity is in compliance with KRS 65.140. Appropriate personnel from each Metro department should review this report and determine the extent of corrective action necessary. Specific recommendations include the following.

- ✓ All Metro departments should review their policies and procedures to ensure non-compliance risks are adequately mitigated. Appropriate corrective action should be taken to ensure compliance with KRS 65.140 requirements.
- ✓ Metro departments should not implement a “pay and chase” approach to supplier payments. KRS 65.140 provides for exceptions when legitimate disputes occur, or if other payment terms have been agreed to by the supplier. These types of exceptions, in which payment is intentionally not in compliance with KRS 65.140, should be properly documented. This should be part of the supporting documentation for the payment.
- ✓ In order to facilitate timeliness analysis, departments should consider date stamping all invoices upon receipt. This also can help document compliance with KRS 65.140 since it is based on receipt date.
- ✓ Departments should use Metro’s financial system reports to monitor and assess their payment timeliness. This can help identify areas in which additional compliance efforts and corrective actions are needed.
- ✓ Additional training of key departmental personnel may be necessary in order to ensure that the importance of entering accurate information in the financial system is understood.
- ✓ The accuracy of data entered should be routinely monitored to ensure its integrity. This includes verifying the accuracy of invoice dates.

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