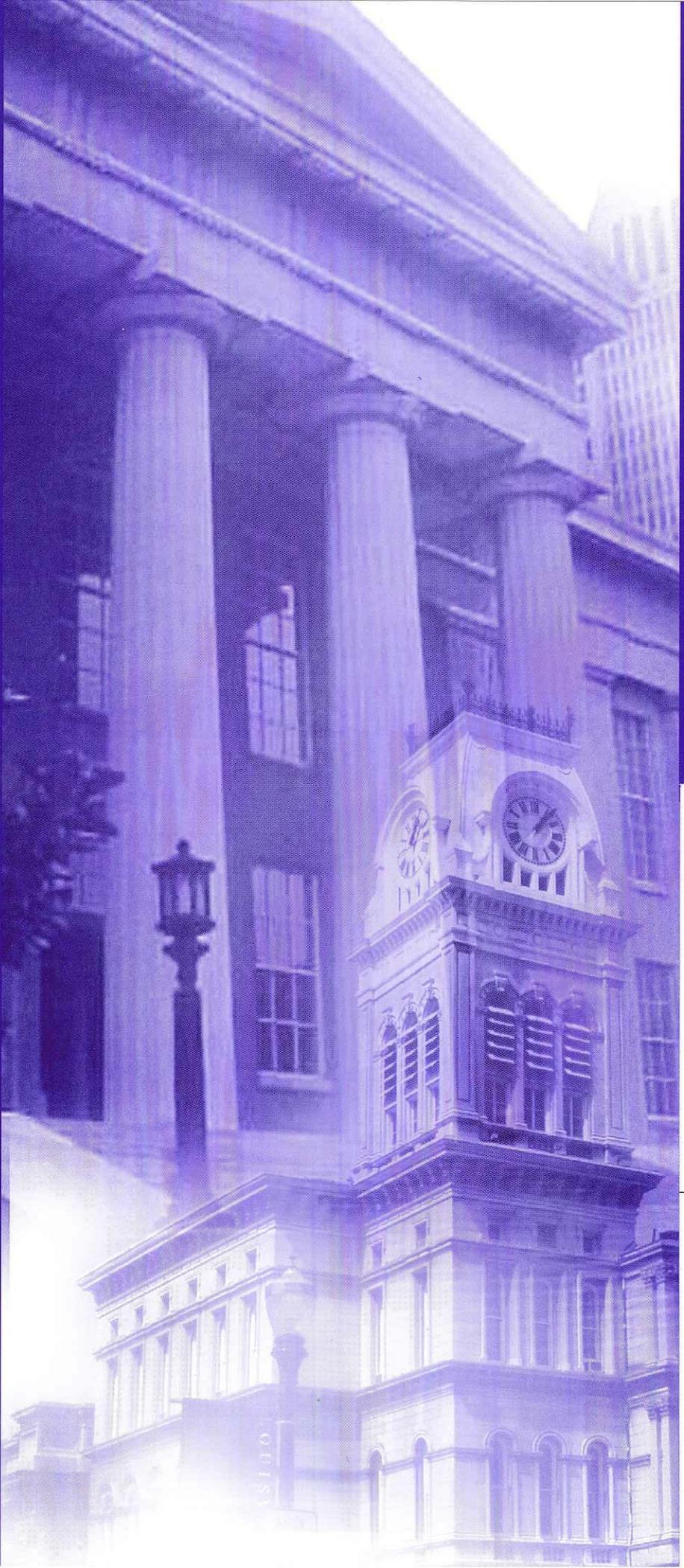




Jerry E. Abramson  
Mayor

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

Louisville Metro Government

Cable / Satellite Television  
Expenditure Activity

# Audit Report

Office of Internal Audit

## Louisville Metro Government

### Cable / Satellite Television Expenditure Activity

November 2007



Louisville Metro Government

Cable / Satellite Television  
Expenditure Activity

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**Transmittal Letter**

November 20, 2007

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

**Re: Audit of Louisville Metro Cable / Satellite Television Expenditure Activity**

**Introduction**

An audit of the Louisville Metro cable / satellite television expenditure activity was performed. The primary focus of the audit was the fiscal administration and public purpose of services received by Metro. This included how Metro processes, records and monitors the activity. Compliance with policy and other regulatory guidelines were included in this review.

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 Louisville Metro cable / satellite television expenditure activity were reviewed through interviews with key personnel. The focus of the review was the fiscal administration and public purpose of services received by Louisville Metro. Expenditures were considered reasonable for a public purpose provided they were not for movie channels, pay-per-view, or for basic cable channels (which are to be provided at no charge according to the Local Franchise Agreement). While the scope of this audit included satellite television expenditures, there was no evidence of payments for these types of services during the review period. Therefore, only cable television expenditures were reviewed.

Tests of sample data were performed for transactions from the period July 1, 2006 through September 30, 2007. Activity reviewed included supplier invoices, along with supporting documentation and Metro financial system information. This included reviewing compliance with Louisville Metro ordinance and Kentucky State guidelines.

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 identify all issues because it was based on selective review of procedures and data.

## Opinion

It is our opinion that the administration of cable / satellite television expenditure activity is satisfactory. 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. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Specifics include the following.

- **Compliance with Legal Requirements.** A determination could not be made as to whether charges for cable TV installation were in compliance with the Franchise Agreement. Some of the language in the agreement is ambiguous, causing uncertainty regarding Metro's responsibility for cable installation charges.
- **Support Documentation.** While the activity reviewed appeared to be reasonable and for a public purpose, the following was noted.
  - For some of the expenditures reviewed, the applicable departments had to be contacted for additional documentation to determine the purpose of the activity. Ultimately, one case was noted in which documentation was not sufficient to determine the nature of the activity.
  - It appears that Metro's Cable Request - Issue Form has not been used as intended and it has not been updated to include current procedures.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the administration of cable television expenditure activity.

**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 cable television expenditure activity is appropriate. The recommendation pertaining to adequate support documentation was discussed with the applicable departments during the review. This recommendation does not require a response / corrective action plan. There were no recommendations applicable to the expenditure activity for the Louisville Metro enterprise. Therefore, the final report will be provided to the departments included in the review for informational purposes only.

The Facilities Management division of the Department of Public Works and Assets is responsible for coordinating the installation of cable television services for Metro Government. Facilities Management was asked to provide a corrective action plan for the recommendations specific to this responsibility. The corrective action plan is included in the Observations and Recommendations section of this report. The plan demonstrates Facilities Management commitment to implement the recommendations. The Office of Internal Audit will continue to work with Facilities Management to ensure the actions taken are effective.

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 Works and Assets  
Director of Facilities Management  
Department / Division Directors (e-file)  
Department / Division Business Managers (e-file)  
Louisville Metro External Auditors

**Internal Control Rating**



<u>Legend</u>			
<u>Criteria</u>	<b>Satisfactory</b>	<b>Weak</b>	<b>Inadequate</b>
<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**

Louisville Ordinance No. 76, Series 1998, serves as the Local Franchise Agreement for cable television services provided to the Louisville Metro area. This agreement includes provisions for the service provider's insurance, records, consumer practices, consumer protection measures, construction, franchise fees, operation procedures, health, safety and welfare measures. In addition, the agreement provides normal installations and basic cable television service free of charge to specified public organizations, including Metro Government.

Metro Public Works and Assets, Facilities Management division (Facilities Management) personnel coordinate cable installation requests between Metro departments and the cable franchisee. Review by Facilities Management is intended to ensure that Metro cable installations comply with the Local Franchise Agreement and are for a public purpose.

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 previously conducted any reviews of Louisville Metro cable / satellite television expenditure activity.

### **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**

The focus of this review was the Louisville Metro enterprise, not an individual department. Each Louisville Metro department is responsible for ensuring its cable television expenditure activity is appropriate. The recommendation pertaining to adequate support documentation was discussed with the applicable departments during the review. This recommendation does not require a response / corrective action plan.

The Facilities Management division of the Department of Public Works and Assets is responsible for coordinating the installation of cable television services for Metro Government. Audit results were discussed with Facilities Management on October 29, 2007, and a final draft report was issued on November 8, 2007. It was determined that a formal exit conference was not necessary. Facilities Management was asked to provide a corrective action plan for the recommendations specific to the installation coordination responsibilities.

The views of Facilities Management officials were received on November 16, 2007 and are included in the Observations and Recommendations section of the report. The plan indicates 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.”*

Facilities Management’s response was provided within this required timeframe.

## Observations and Recommendations

### Scope

The general policies and procedures for Metro's cable / satellite television expenditure activity were reviewed. The focus of the review was the fiscal administration and public purpose of services received by Louisville Metro. Expenditures were considered reasonable for a public purpose provided they were not for movie channels, pay-per-view, or for basic cable channels (which are to be provided at no charge according to the Local Franchise Agreement). The review included how expenditure activity is processed, recorded, and monitored. In addition, the review included assessing compliance with Louisville Metro ordinance and Kentucky State guidelines. Applicable personnel were interviewed in order to gain a thorough understanding of the processes.

While the scope of this audit included satellite television expenditures, there was no evidence of payments for these types of services during the review period. Therefore, the population of cable television expenditures for the period July 1, 2006 through September 30, 2007 was reviewed. The review consisted of examining supplier invoices, Metro financial system information, Louisville Metro ordinance and Kentucky State guidelines.

The information was reviewed to ensure that activity was processed accurately and appropriately and complied with applicable guidelines. The review would not reveal all issues because it was based on selective review of data.

### Observations

The overall internal control structure is satisfactory. While the activity appeared to be reasonable and for a public purpose, there were some opportunities noted for improving Louisville Metro's cable television expenditure activity. Specifics include the following.

- **Compliance with Legal Requirements.** A determination could not be made as to whether charges for cable TV installation were in compliance with the Franchise Agreement. Some of the language in the agreement is ambiguous, causing uncertainty regarding Metro's responsibility for cable installation charges.

Public Works and Assets Facilities Management division (Facilities Management) staff met with the service provider during the review in order to obtain an understanding of the billing policies for Metro departments. While an explanation was provided for types of charges, a legal determination of the service provider's practices was not obtained.

- **Support Documentation.** The population of payments for cable television expenditures was examined for the period reviewed. For some of the expenditures reviewed, the applicable departments had to be contacted for additional documentation to determine the purpose of the activity. Ultimately, one case was noted in which documentation was not sufficient to determine the nature of the activity.

- For the one case, an overdue notice in the amount of \$79.95 was provided in lieu of a supplier invoice. The overdue notice did not include a description of the cable expenditure; therefore, details of the expense were not available for review. The department responsible for initiating the payment (General Services Administration) could not provide additional information for this payment. However, based on review of similar charges, the expense appears to be a \$75 cable installation with a \$4.95 late fee.
- **Metro Cable Request Form.** Metro's Cable Request - Issue Form has not been used for recent installations and has not been updated to include current procedures. This form is intended to be prepared by requesting departments and submitted to Facilities Management staff for review. Review by Facilities Management is intended to ensure that Metro cable transactions comply with the Franchise Agreement and are for a public purpose.

### **Recommendations**

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

- ✓ Facilities Management personnel should continue to coordinate all cable television service requests for Metro departments. This will help ensure activity complies with applicable regulations and is for a public purpose.
- ✓ Louisville Metro should obtain written definitions for the terminology used by the service provider for billing purposes (e.g. standard, non-standard, normal installation, etc.). This will help alleviate confusion over the meaning and purpose of cable television services as they are provided to Metro departments.
- ✓ The cable television service provider billing policies for Metro departments should be reviewed by Metro legal counsel to ensure that they comply with the Franchise Agreement and other applicable legal requirements.
- ✓ Metro's Cable Request - Issue Form should be updated to reflect accurate policy and instructional information.
- ✓ Metro departments should provide adequate support documentation with payment requests (i.e. original invoices). All disbursement transactions should be supported by sufficient documentation to allow a reasonable person to independently determine the purpose of an expenditure.

### **Corrective Action Plan from the Director of Facilities Management**

I am in receipt of the draft report prepared by your office and after careful review I can find no room for disagreement. It seems that we are operating satisfactorily but there is room for improvement. Thus, I will work diligently to follow all recommendations made. Thank you for your help and any future assistance you can give.