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Mayor

26 Member
Metro Council

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Office of Internal Audit

Louisville Metro Government

Miscellaneous Revenue

Audit Report

Louisville Metro Government

Miscellaneous Revenue

December 2007

Office of Internal Audit

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OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

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CHIEF AUDIT EXECUTIVE

Transmittal Letter

December 18, 2007

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

Subject: Audit of Louisville Metro Government's Miscellaneous Revenue

Introduction

An audit of Louisville Metro Government's miscellaneous revenue was performed. Specific focus was on activity that would not typically be reviewed as part of departmental audits. This included Humana Clock Tower and Fire Pension Surplus revenue activity. The objective was to obtain assurance that risks are properly mitigated through the internal control structure.

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

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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 miscellaneous revenue activity were reviewed through interviews with key personnel and an examination of applicable support documents. The focus of the review was the administration of the revenue activity. Sample data pertaining to Humana Clock Tower revenue from the period July 1, 2003 through June 30, 2007 was reviewed; sample data pertaining to Fire Pension Surplus receipts from the period July 1, 2006 through June 30, 2007 was reviewed. Activity reviewed included agreements, activity files, and receipts tracking software.

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 miscellaneous revenue activity, as it relates to Humana Clock Tower and Fire Pension Surplus revenue, is satisfactory. The internal control rating is on page 5 of this report. This rating quantifies the opinion regarding the internal controls. While the overall opinion is satisfactory, there was one issue noted that requires further action.

- Humana Clock Tower. It could not be determined if one interest payment of $13,500 was received. There was no receipt documentation in Finance's activity file and the amount could not be identified in Metro's financial system. It is possible that it was received and deposited with other activity. This would make it impossible to identify in the financial system based on the description or amount. Since Finance personnel currently responsible for tracking the Humana Clock Tower payments were not involved in the process during this time, and no other documentation was available, it could not be determined if the $13,500 was actually received.

Corrective Action Plan

Recommendations for the Louisville Metro Government enterprise were not necessary. For the Humana Clock Tower revenue, recommendations were directed to

Metro's Finance and Administration Department. Finance's corrective action plan demonstrates a commitment to addressing the issue.

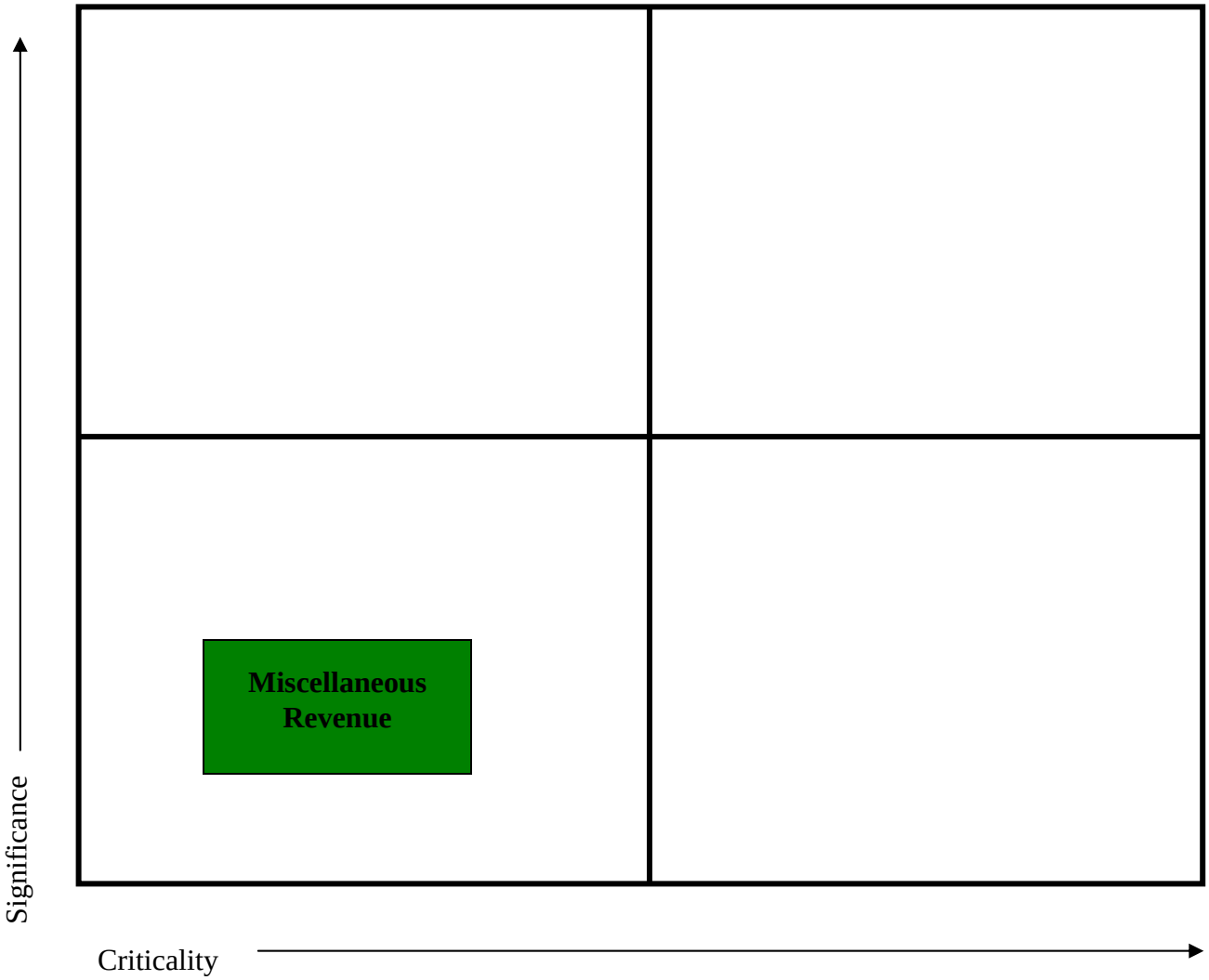
In addition, Finance should be commended for their proactive efforts in tracking Humana Clock Tower revenue in fiscal year 2007. These efforts were initiated prior to this review. The process will help ensure that revenue is received as intended (i.e. for the appropriate amount and in a timely manner according to agreement terms). We will continue to work with Finance to ensure 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 Finance and Administration
Louisville Metro External Auditors

Internal Control Rating



Legend

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

Background

Various Louisville Metro Government revenue activity posts to the miscellaneous revenue account. Most of the revenue activity is reviewed as part of departmental audits (e.g. Emergency Medical Services CPR sales, Animal Services fees). Other revenue areas may not be directly related to a specific department or service, which increases the risk associated with the activity. Based on an analysis of miscellaneous revenue activity for Louisville Metro during fiscal year 2007, the following areas were chosen for review.

Humana Clock Tower – Revenue received as part of the terms of an agreement between the City of Louisville and Humana Inc. The revenue consists of principal and interest payments made by Humana in exchange for previous assistance received by the City of Louisville to help renovate the Humana Clock Tower building. Humana agreed to renovate the building to make it usable for E-commerce and upon completion, would lease office space exclusively to companies or persons engaged in E-commerce. The revenue is generated quarterly.

Fire Pension Surplus – Revenue received as part of the terms of an agreement between the City of Louisville and the Louisville Professional Firefighters Association (Local Union 345). The revenue consists of interest earned from an investment made with the pension surplus that resulted from eligible Fire employees transferring from participation in the Louisville Firefighters Pension Plan to the City's CERS pension plan. The interest earned is credited to the Fire miscellaneous revenue account to offset the pension costs incurred due to transferred employees. The revenue is generated semi-annually.

The fiscal year 2007 revenue total for Humana Clock Tower was $470,475; Fire Pension Surplus was $573,500.

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 the Louisville Metro Government's miscellaneous revenue activity as it relates to the enterprise. Specifically, no reviews have been previously conducted of Humana Clock Tower and Fire Pension Surplus revenue.

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 draft report was issued to Finance and Administration on November 9, 2007. An exit conference was not necessary since there was only one issue requiring corrective action.

The views of Finance officials were received on December 14, 2007 and are included as the corrective action plan in the Observations and Recommendations section of this report. The plan indicates a commitment to addressing the issue 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 Finance response was provided within this required timeframe.

Observations and Recommendations

Scope

An account analysis was performed to identify miscellaneous revenue for Louisville Metro Government by department and unit activity. Specific focus was on activity that would not typically be reviewed as part of a departmental audit. Significance of revenue activity was also a consideration, such as revenue amounts and frequency. Miscellaneous revenue activity included in the review consisted of the following.

Humana Clock Tower – Revenue received as part of the terms of an agreement between the City of Louisville and Humana Inc. The revenue consists of principal and interest payments made by Humana in exchange for previous assistance received by the City of Louisville to help renovate the Humana Clock Tower building. Humana agreed to renovate the building to make it usable for E-commerce and upon completion, would lease office space exclusively to companies or persons engaged in E-commerce.

The loan repayments by Humana were in the form of two notes. The revenue pertaining to the second note / first principal amount was the only activity for the review period and was included in the review. The revenue is generated quarterly. Other revenue activity related to the Humana agreement (note 1 and note 2 / second principal amount) did not pertain to the period reviewed and therefore was not examined.

Fire Pension Surplus – Revenue received as part of the terms of an agreement between the City of Louisville and the Louisville Professional Firefighters Association (Local Union 345). The revenue consists of interest earned from an investment made with the pension surplus that resulted from eligible Fire employees transferring from participation in the Louisville Firefighters Pension Plan to the City's CERS pension plan. The interest earned is credited to the Fire miscellaneous revenue account to offset the pension costs incurred due to transferred employees. The revenue is generated semi-annually.

A thorough understanding of the revenue activity was obtained in order to evaluate the internal control structure. This was achieved through reviews of applicable agreements, examination of supporting documentation, and interviews of key personnel. Testing of activity was also performed to determine the effectiveness of the controls. Humana Clock Tower revenue from fiscal year 2004-2007 was reviewed; Fire Pension Surplus revenue from fiscal year 2007 was reviewed. The review would not reveal all issues because it was based on a selective review of data. The following issues were noted.

Observations

The overall internal control structure for the administration of miscellaneous revenue is satisfactory. There were no observations noted for the Fire Pension Surplus revenue. There was one issue noted for the Humana Clock Tower revenue, but it does not impact the current internal control structure. The issue is as follows.

Humana Clock Tower

- It could not be determined if one interest payment of $13,500 was received. This was from the period October 2004 to September 2005. There was no receipt documentation in Finance's activity file and the amount could not be identified in Metro's financial system. It is possible that it was received and deposited with other activity. This would make it impossible to identify in the financial system based on the description or amount. Since Finance personnel currently responsible for tracking the Humana Clock Tower payments were not involved in the process during this time, and no other documentation was available, it could not be determined if the $13,500 was actually received.

Recommendations

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

- ✓ In order to determine if the missing payment was actually received, Finance personnel may need to contact Humana for assistance. If it is determined that Louisville Metro did in fact receive the payment, then support documentation should be obtained. If it was not made, then payment from Humana should be pursued.

- ✓ Metro Finance should be commended for their efforts in tracking Humana Clock Tower revenue in fiscal year 2007. The process will help ensure that revenue is received as intended (i.e. for the appropriate amount and in a timely manner according to agreement terms).

Finance and Administration's Corrective Action Plan

Metro Finance will contact Humana this fiscal year to determine if the interest payment was received and acquire appropriate supporting documentation regarding this transaction. If it is determined that the interest payment was not received by Metro, we will pursue payment to be made during this fiscal year.