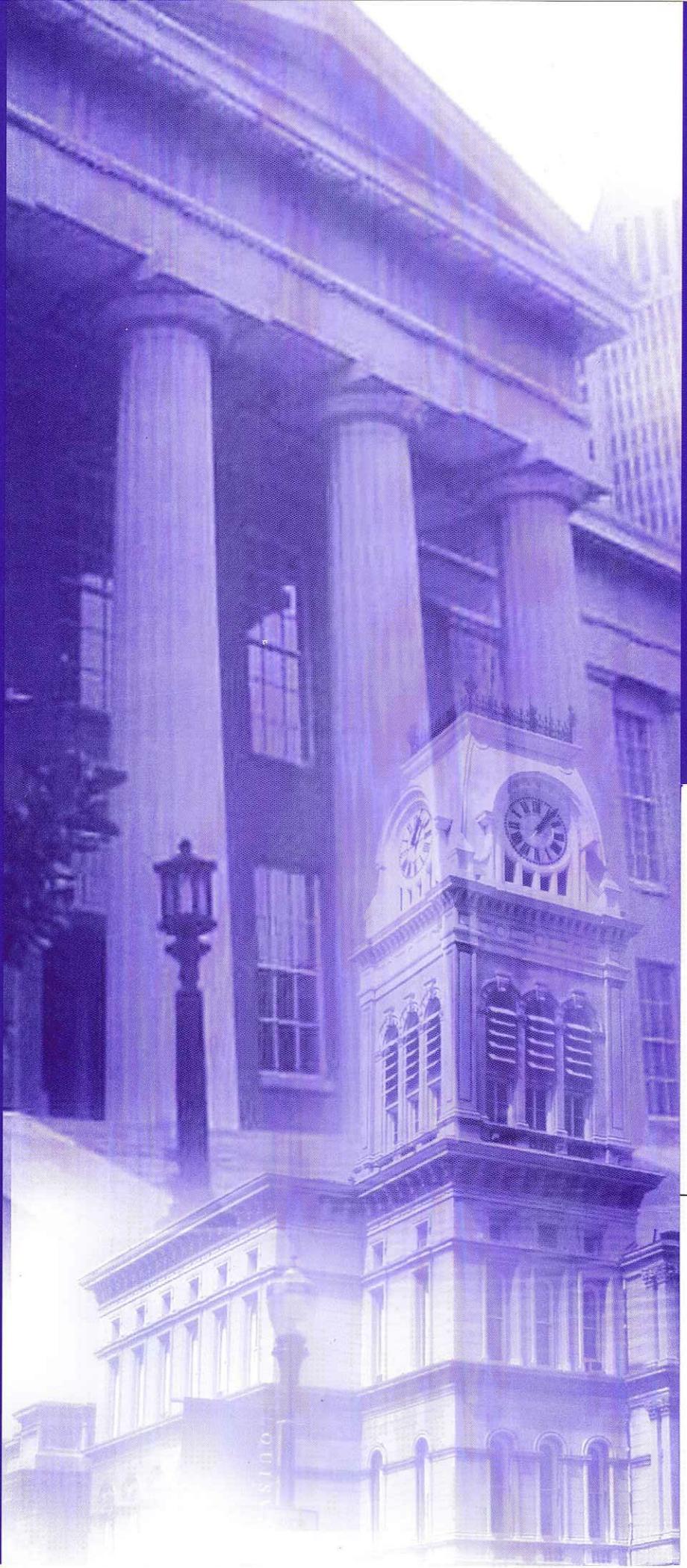




Jerry E. Abramson  
Mayor

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 Police  
Department

Capital Projects

# Audit Report

Office of Internal Audit

## Louisville Metro Police Department

### Capital Projects

January 2008



Louisville Metro Police  
Department

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Capital Projects

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OFFICE OF INTERNAL AUDIT  
LOUISVILLE, KENTUCKY

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PRESIDENT METRO COUNCIL

**Transmittal Letter**

January 14, 2008

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

**Subject: Audit of Louisville Metro Police Department Capital Projects**

**Introduction**

An audit of Louisville Metro Police Department's (LMPD) capital projects was performed. The objective was assessing compliance with the intended use of the appropriation and contractual terms with suppliers. The focus was expenditures for the life of the project. A total of four capital projects were selected for 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 expenditures for selected Louisville Metro Police Department capital projects were reviewed. The objective was assessing compliance with the intended use of the appropriation and contractual terms with suppliers. The following four projects were included in this review. The total amount appropriated is also noted.

- 1<sup>st</sup>, 4<sup>th</sup> and 5<sup>th</sup> Division HVAC Repairs and Replacement, \$446,000
- 5<sup>th</sup> Division Renovation, \$145,000
- 7<sup>th</sup> and Industry (Shelving, Wiring and Fencing), \$200,000
- Surveillance Cameras, \$300,000

Detailed policies and procedures were not considered within the scope of the review, nor was the bid and award process for supplier contracts. The review period covered project inception through June 30, 2007.

An understanding of the capital projects reviewed was obtained through interviews of key personnel. This included obtaining an understanding of capital project objectives, goals and expenditure activity. Documentation reviewed included Louisville Metro Ordinances, capital budgets, financial system records, purchase orders, invoices, payment documents and other supporting documentation.

A sample of expenditures from each of the four projects was reviewed. The activity was verified to the intended purpose of the appropriation, and to the contractual terms for the supplier. In addition, a sample of items procured for the capital projects was verified through visual inspections. 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 internal control structure for the LMPD capital projects is satisfactory. The internal control rating is on page 5 of this report. This rating quantifies the opinion regarding the internal controls. Specific compliance results include the following.

- **Appropriation.** Expenditure activity for the four projects reviewed was in compliance with the intended use of the appropriation. No recommendations were necessary.
- **Contractual.** Expenditure activity for the four projects reviewed was in compliance with contractual terms. The following minor issue noted appeared to be an exception rather than an indication of control weaknesses.
  - *Price.* There was one case in which the invoice rate did not equal the contractual rate. This involved a State contract in which Metro paid less than the contractual rate.

**Corrective Action Plan**

The administration of capital projects often involves resources from multiple Metro departments. These other departments have critical roles such as evaluating bids, negotiating contracts, and managing projects. Therefore, in addition to LMPD, the results of this review have been provided to Public Works and Assets and the Purchasing division of Metro Finance.

Due to the results, and minor nature of the issue noted, a corrective action plan was not requested from the departments. In calendar year 2007, the Purchasing Division of Metro Finance issued a policy directive for the use of State contracts. The directive will help ensure the invoices agree to the contractual prices. The activity reviewed occurred prior to the issuance of this directive.

Sincerely,



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

cc: Louisville Metro Council Audit Committee  
Louisville Metro Council Members  
Louisville Metro Police Chief  
Director of Public Works and Assets  
Director of Finance  
Director of Purchasing  
Louisville Metro External Auditors

**Internal Control Rating**



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

Capital projects are authorized by ordinances approved by the Metro Council. The projects involve activities related to acquiring, constructing, maintaining, repairing, or improving Louisville Metro's public works.

Capital projects may be authorized as part of the annual budget process or appropriated at any time during the fiscal year. Each capital project has a specific description that summarizes the scope of work to be performed. Overall project scope can not be significantly changed without the approval of the Metro Council. Projects may also be funded through the issuance of bonds. Bond legislation details the intended use of funds and is approved by ordinance enacted by the Metro Council.

Table 1 shows the LMPD capital projects from Fiscal Year 2006 through 2007 (July 2005 through June 2007). This constitutes the population of capital projects for this review.

<b>Table 1 – Population of Capital Projects (FY 2006 – FY 2007)</b>		
<b>Project Description</b>	<b>Total Appropriations</b>	<b>Total Actual Expenditures</b>
1st Division Floor	\$12,800	\$9,339
1st, 4th & 5th Divisions HVAC	\$446,000	\$404,380 *
2004 LLEBG/Tasers		\$66,500
2005 Bullet Proof Vest Partnership		\$9,000
3rd Division, Council 21	\$10,000	\$6,932
4th Division, Council 15	\$3,788	\$3,756
4th Division, Council 21	\$10,000	\$10,000
5th District Men's Locker Room Repairs		\$168
5th Division Renovation	\$145,000	\$145,000 *
5th Division Window Replacement	\$25,000	\$25,000
6th Division, Council 21	\$5,000	\$4,643
7th & Industry Shelving, Wiring, Fencing	\$200,000	\$187,815 *
Accreditation	\$42,400	\$9,251
Criminal Invest. Area Remodeling	\$60,000	\$59,515
Firearms Training Center Expansion	\$206,200	\$0
Firearms Training Center Expansion	\$400,000	\$0
Firing Range Improvements	\$110,000	\$0
Firing Range Renovations	\$120,000	\$0
Kennel Renovations	\$50,000	\$50,000
LLEBG 2001		\$5,123
LLEBG 2002		\$6,794
Mitchell Hill Generator Replace	\$30,000	\$25,392
Old Lou. Water Co Bldg	\$50,000	\$50,000
Property Room Improvements	\$160,000	\$22

<b>Table 1 – Population of Capital Projects (FY 2006 – FY 2007)</b>		
<b>Project Description</b>	<b>Total Appropriations</b>	<b>Total Actual Expenditures</b>
Purchase & Maintenance of Emergency Equip		\$299
Smart Machine for District 23	\$18,520	\$18,280
Surveillance Cameras	\$300,000	\$225,394 *
Taylor Blvd. Training Improvements	\$125,000	\$0
Temporary 6th Division Facility		\$80,000
Training Modifications	\$41,000	\$3,567
Vehicle Metro Markings		\$38,503
Vest Replacement	<u>\$75,000</u>	<u>\$28,188</u>
Total	\$2,645,708	\$1,472,860
<i>* Project included in sample</i>		

The administration of capital projects often involves resources from multiple Metro departments, such as the Department of Public Works and Asset's Project Management Division and the Purchasing Division of Metro Finance. These other departments have critical roles such as evaluating bids, negotiating contracts, and managing projects.

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 LMPD capital projects.

#### **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 Louisville Metro Police Department, Public Works and Assets, and Purchasing on January 7, 2008. Due to the results, and minor nature of the issue noted, a formal exit conference was not necessary. The issue and appropriate corrective actions were discussed with representatives of the responsible department.

A formal response / corrective action plan was not requested from the departments. A policy directive for the use of State contracts was issued in 2007. These actions occurred after the time of the issues noted in this review. Therefore, a formal corrective action plan is not needed.

## Observations and Recommendations

### Scope and Methodology

The expenditures for selected Louisville Metro Police Department capital projects were reviewed. The objective was assessing compliance with the intended use of the appropriation and contractual terms with suppliers. The focus was expenditures for the life of the project. Detailed policies and procedures were not considered within the scope of the review, nor was the bid and award process for contracts.

The population of LMPD capital projects was compiled from various sources. This included reviews of annual capital budget documents, Metro's financial system, and discussions with Police and Metro Finance personnel. The time period covered fiscal year 2006 through fiscal year 2007 (July 2005 through June 2007). The population is detailed in Table 1 in the Background section of this report.

Four capital projects were selected for review. The project name, and total amount of expenditures during the review period, is as follows.

- 1<sup>st</sup>, 4<sup>th</sup> and 5<sup>th</sup> Division HVAC Replacement and Repairs, \$404,380
- 5<sup>th</sup> Division Renovations, \$145,000
- 7<sup>th</sup> and Industry (Shelving, Wiring and Fencing), \$187,815
- Surveillance Cameras, \$225,394

The total expenditures for these projects were \$962,590, or 65.4% of the total capital project expenditures for the audit period.

An understanding of the capital projects reviewed was obtained through interviews of key personnel. This included obtaining an understanding of capital project objectives, goals and expenditure activity. Documentation reviewed included Louisville Metro Ordinances, capital budgets, financial system records, purchase orders, invoices, payment documents and other supporting documentation.

A sample of expenditures from each of the four projects was reviewed. The activity was verified to the contractual terms for the supplier, as well as the intended purpose of the appropriation. In addition, a sample of items procured for the capital projects was judgmentally selected and physically verified through visual inspections. The review would not reveal all issues because it was based on selective review of data.

### Observations

The overall internal control structure is satisfactory. Specific details and results of the reviews as follows.

- #1 - 1<sup>st</sup>, 4<sup>th</sup> and 5<sup>th</sup> Division HVAC Replacement and Repairs
- #2 - 5<sup>th</sup> Division Renovations
- #3 - 7<sup>th</sup> and Industry (Shelving, Wiring and Fencing)
- #4 - Surveillance Cameras

Details of these begin on the following page.

## #1 - 1<sup>st</sup>, 4<sup>th</sup> and 5<sup>th</sup> Division HVAC Replacement and Repairs

### Project Summary

This project was incorporated in an issue of a General Obligation bond that included repairs to and replacement of existing Heating, Ventilation and Air Conditioning (HVAC) systems throughout various Louisville Metro locations. The total amount for HVAC systems was \$1.9 million. This included an allocation for improvements at the Louisville Metro Police Department's 1<sup>st</sup>, 4<sup>th</sup> and 5<sup>th</sup> Divisions.

### Authorizing Legislation

Louisville Metro Ordinance #128, Series 2004

### Authorized Appropriation

\$446,000

### Project Expenditures (Inception through June 30, 2007)

\$404,380

### Results

The overall internal control structure is satisfactory. Results of the expenditures reviewed for this project are as follows.

- **Appropriation.** The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** The expenditures reviewed were in compliance with contractual terms. The following minor issue noted appeared to be an exception rather than an indication of control weaknesses.
  - A case was noted in which a payment to a supplier did not agree with the documented contract rate. Payment was authorized by a purchase order associated with a State contract. The rate paid was lower than the documented contract rate. While the difference benefited Metro, there was not a contractual basis for the payment amount.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of some of the items reviewed.



**1<sup>st</sup> Division HVAC (Outside Unit)**



**1<sup>st</sup> Division HVAC (Boiler)**



**4<sup>th</sup> Division HVAC (Boiler)**



**4<sup>th</sup> Division HVAC (Outside Units)**



**4<sup>th</sup> Division HVAC (Chillers)**



**4<sup>th</sup> Division HVAC (Outside Unit)**

### **Recommendations**

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

- ✓ Applicable Police personnel should ensure appropriate documentation is provided before processing invoices for payments. This should include verifying that invoice amounts agree to contractual terms. While project managers in other departments may be authorizing the invoices for payment, Police are also accountable since they process the activity.
- ✓ As part of the payment approval process, appropriate personnel should review invoices to ensure accuracy, appropriateness, and agreement to contractual terms. Supporting documentation should be explicit as to the goods / services provided or work performed. Enough documentation should be provided to allow independent verification of expenditures to the contractual terms.
- ✓ 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.

- ✓ In calendar year 2007, the Purchasing division of Metro Finance issued a policy directive for the use of State contracts. All departmental personnel should comply with this directive. Doing so will help ensure the invoices agree to the documented contractual terms.

## #2 - 5<sup>th</sup> Division Renovations

### Project Summary

This project was incorporated in an issue of a General Obligation bond. The 5<sup>th</sup> Division renovation project included the replacement of deteriorating windows and renovation of the second floor to add additional usable space.

### Authorizing Legislation

Louisville Metro Ordinance #128, Series 2004

### Authorized Appropriation

\$145,000

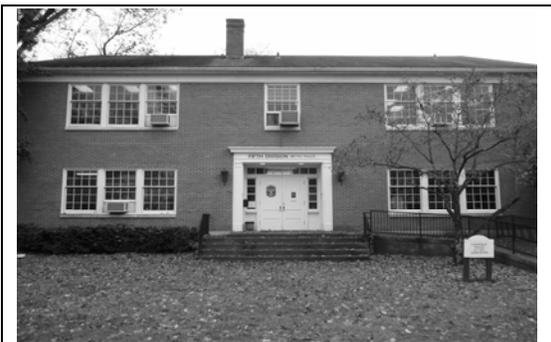
### Project Expenditures (Inception through June 30, 2007)

\$145,000

### Results

The overall internal control structure is satisfactory. Results of the expenditures reviewed for this project are as follows.

- **Appropriation.** The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** The expenditures reviewed were in compliance with contractual terms.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of some of the items reviewed.



**5<sup>th</sup> Division - Front View (pre-project)**



**5<sup>th</sup> Division - Front View Post Project**



**5<sup>th</sup> Division Windows**



**5<sup>th</sup> Division Doors**

**Recommendations**

No recommendations necessary.

### #3 - 7<sup>th</sup> and Industry (Shelving, Wiring and Fencing)

#### Project Summary

Capital Cumulative Reserve Funds were appropriated to increase the capacity for the combined property room at the 7<sup>th</sup> and Industry building. This included moving and resetting existing shelving and adding new movable shelving for property storage; fencing and gates within the structure; and internal wiring and network equipment for technological infrastructure and connectivity to prepare the building.

#### Authorizing Legislation

Louisville Metro Ordinance #115, Series 2003

#### Authorized Appropriation

\$200,000

#### Project expenditures (Inception through June 30, 2007)

\$187,815

#### Results

The overall internal control structure is satisfactory. Results of the expenditures reviewed for this project are as follows.

- **Appropriation.** The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** The expenditures reviewed were in compliance with contractual terms.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of some of the items reviewed.



**Wire Mesh Partitions**



**Railing**



**Automatic / Security Door Operator**

**Recommendations**

No recommendations necessary.

## #4 - Surveillance Cameras

### Project Summary

Capital Cumulative Reserve Funds were appropriated for the acquisition and installation of surveillance cameras that are utilized to deter, monitor and record criminal activities throughout Louisville Metro. The video recording system includes cameras, supporting hardware and software.

### Authorizing Legislation

- (1) Louisville Metro Ordinance #59, Series 2006
- (2) Louisville Metro Ordinance #112, Series 2006

### Authorized Appropriation

- (1) \$170,000
- (2) \$130,000

### Project expenditures (Inception through June 30, 2007)

\$225,394

### Results

The overall internal control structure is satisfactory. Results of the expenditures reviewed for this project are as follows.

- **Appropriation.** The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** The expenditures reviewed were in compliance with contractual terms.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of some of the items reviewed.





**Tablet Personal Computer**



**Sonitrol Security System**

**Recommendations**

No recommendations necessary.

### **Corrective Action Plan**

The administration of capital projects often involves resources from multiple Metro departments. These other departments have critical roles such as evaluating bids, negotiating contracts, and managing projects. Therefore, in addition to LMPD, the results of this review have been provided to Public Works and Assets and the Purchasing division of Metro Finance.

Due to the results, and minor nature of the issue noted, a corrective action plan was not requested from the departments. In calendar year 2007, the Purchasing Division of Metro Finance issued a policy directive for the use of State contracts. The directive will help ensure the invoices agree to the contractual prices. The activity reviewed occurred prior to the issuance of this directive.