Jerry E. Abramson
Mayor

26 Member
Metro Council

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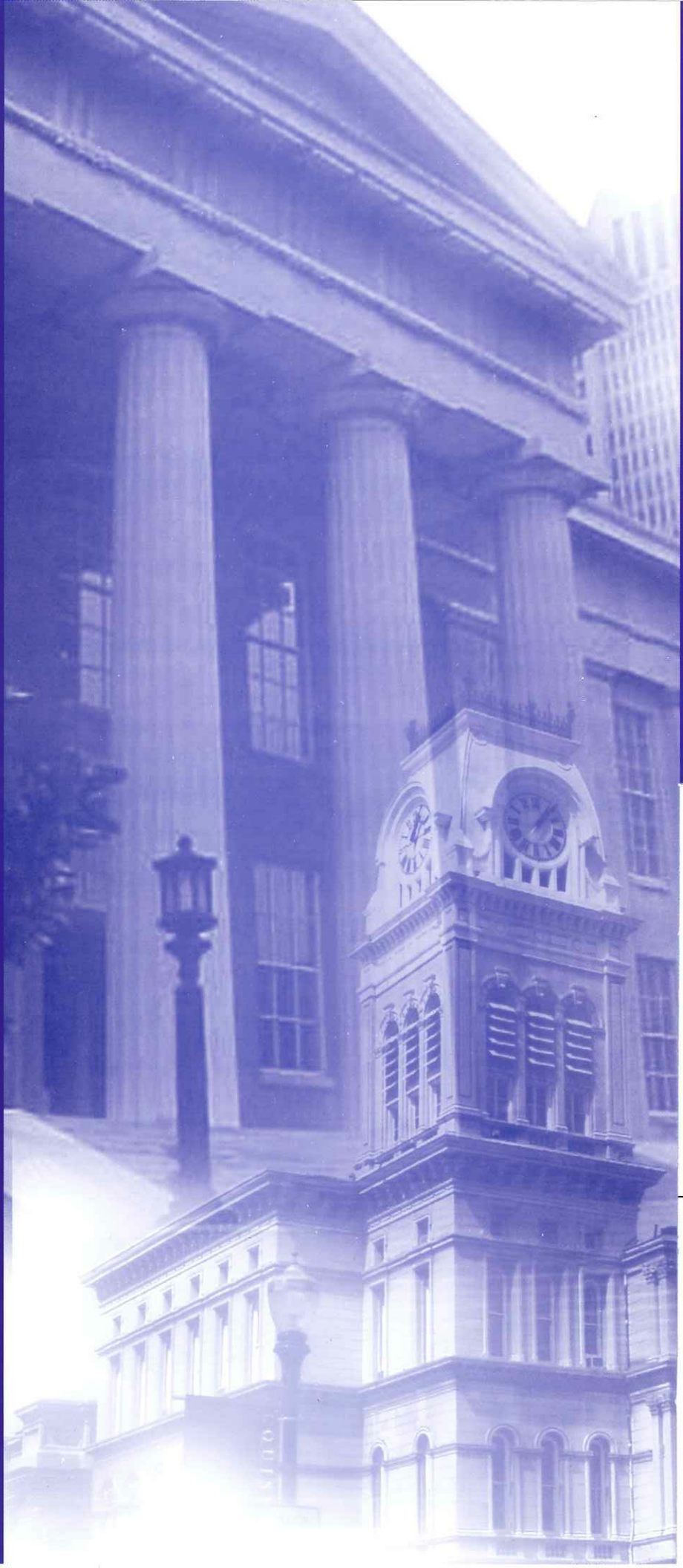

Office of Internal Audit

Louisville Metro Government

Miscellaneous Services Expenditures

Audit Report

Louisville Metro Government

Miscellaneous Services Expenditures

April 2008

Office of Internal Audit

Louisville Metro Government

Miscellaneous Services Expenditures

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OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

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CHIEF AUDIT EXECUTIVE

Transmittal Letter

April 30, 2008

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

Subject: Audit of Louisville Metro's Miscellaneous Services Expenditures

Introduction

An audit of Louisville Metro's miscellaneous services expenditures was conducted. This included activity posted to the Louisville Metro financial system account for miscellaneous expenditures. The primary focus of the review was determining the types of activity the account is used for, if the use is appropriate, and if the activity is in compliance with Metro procurement policies and procedures. The objective was to obtain assurance that the risks are adequately mitigated through the internal control structure.

The audit 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

Louisville Metro's miscellaneous services expenditures were reviewed. The audit period covered expenditures from July 1, 2007 through February 29, 2008. The population of miscellaneous services expenditures was identified by the Metro financial account (#522999) designated for this activity. Reviews of sample data were performed for transactions from the audit period. Activity reviewed included supplier payment documents, along with supporting documentation and Metro financial system postings.

The review assessed whether expenditure activity was in compliance with various requirements in Louisville Metro policies, procedures, ordinances, and Kentucky State guidelines. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The audit would not identify all issues because it was based on selective review of data.

Opinion

It is our opinion that the internal control structure for miscellaneous services expenditures 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 rating is satisfactory, some opportunities to strengthen the internal control structure were noted. These include the following.

- **Use of a Descriptive Financial Account.** Several cases were noted in which a financial account more descriptive of the expenditure was available. Use of financial accounts that are not descriptive of activity limits the usefulness of financial reports as oversight and management tools.

- **Public Purpose Documentation**. Some cases were noted in which the determination of public purpose could not be made based on the payment documentation and / or the description in the Metro financial system. Similar issues were noted in the December 2007 Internal Audit report of Louisville Metro Refreshment Expenditures. Due to the overlapping audit periods, corrective actions would not have been implemented as of this review.

Corrective Action Plan

The focus of this review was the Louisville Metro enterprise, not an individual department. Each Louisville Metro department is responsible for the administration of its expenditure activity and compliance with applicable requirements. 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 risks. This includes implementing necessary corrective actions as well as recommendations contained in this report.

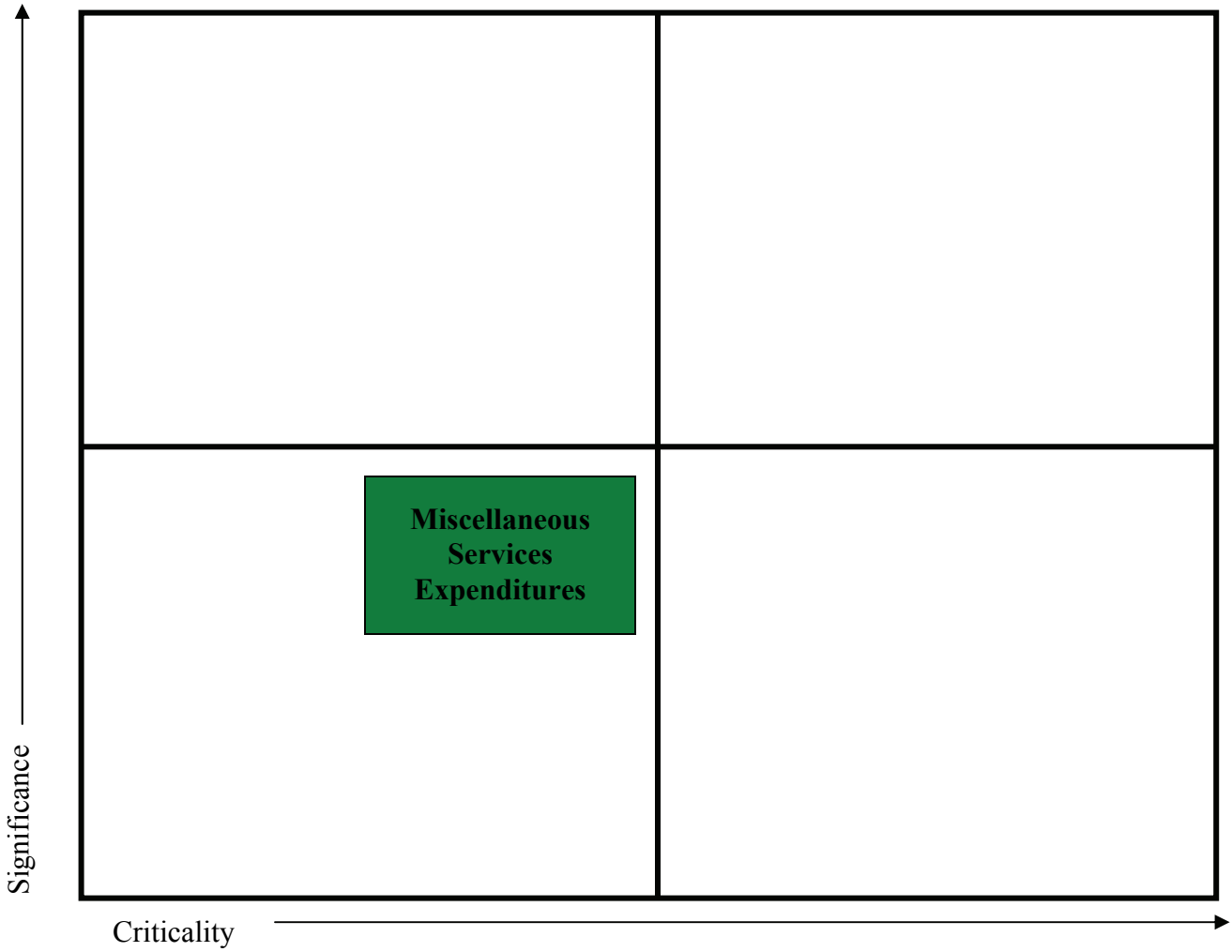
Formal responses from the Louisville Metro departments were not requested for inclusion in this report. However, future reviews of expenditure activity will determine the effectiveness of the departments' corrective actions. The Office of Internal Audit will be available to consult with the departments as any corrective actions are implemented.

Sincerely,

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

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Department / Division Business Managers (e-file)
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

Louisville Metro Government's procurement policies are based on the provisions of KRS 45a.343 through 460, and KRS 67C.119(6). The policies are designed to promote sound business practices. Metro Department employees with specific procurement authority are responsible for ensuring the Metro policies are followed. The Metro purchasing policies and procedures are specific to several types of expenditures for goods, services, and real estate.

Expenditure activity is recorded using the Louisville Metro financial system. A chart of accounts, with descriptive financial codes for most types of transactions, has been established. Using financial accounts that are descriptive of activity helps to ensure the usefulness of financial reports as oversight and management tools. A single account has been designated for miscellaneous services in the event that another more descriptive account does not exist.

As of February 2008, 2,025 transactions totaling approximately $4.4 million had been charged to the miscellaneous services account during fiscal year 2008. A summary of use by Metro Departments / Divisions is included in the appendix of this report.

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 reviews focused solely on Louisville Metro's miscellaneous services 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

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

The focus of this review was the Louisville Metro enterprise, not an individual department. Each Louisville Metro department is responsible for the administration of its expenditures and compliance with applicable regulations and requirements. Therefore, views of responsible officials are not included in this report.

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 risks. This includes implementing necessary corrective actions. Future reviews of miscellaneous services expenditure activity will help determine the responsiveness, appropriateness, and effectiveness of the departments' corrective actions.

Observations and Recommendations

Scope and Methodology

Louisville Metro's miscellaneous services expenditures were reviewed. The primary focus of the audit was determining the types of activity the account is used for, if the use is appropriate, and if the activity is in compliance with Metro procurement policies and procedures.

The audit period covered expenditures from July 1, 2007 through February 29, 2008. The population of expenditure activity was identified by reviewing the activity recorded in the Metro financial account for miscellaneous services (#522999).

A sample of miscellaneous services expenditures was selected from the population for review. Judgmental sampling techniques were used to select the sample. Care was used so that the sample did not include only activity with a higher probability of compliance issues. The sample was also intentionally selected to represent a broad coverage of Metro departments.

The review consisted of examining the supplier payment documents, along with supporting documentation and Metro financial system postings for the transactions in the sample. The review assessed the types of activity the account is used for, if the use is appropriate, and if the activity is in compliance with Metro procurement policies and procedures. The review would not reveal all issues because it was based on selective review of data.

Observations

The overall internal control structure is satisfactory. However, there were some opportunities noted for improving the Louisville Metro miscellaneous services expenditure activity. These include the following.

- **Use of Financial Account Descriptive of Activity.** In 67% (20 of 30) of the cases reviewed, an account was available that was more descriptive of the goods / services purchased. Often times, accounts are available to specifically describe activity. Using financial accounts that are not descriptive of activity limits the usefulness of financial reports as oversight and management tools.

  - In one case, a refund appeared to have been charged as a miscellaneous service. It did not appear as though the initial receipt of funds was credited to the financial account that was expensed for the refund. In these types of instances, a refund is usually charged against the financial coding in which the receipt was credited (which should be descriptive of the activity).

- **Public Purpose.** For 5 cases, or 17% of the sample, a determination of the public purpose could not be made based on the payment documentation and / or the description in the Metro financial system. The Metro departments that authorized the expenditures provided additional information to justify the public purpose of the expenditures. The Office of Internal Audit is not expressing an opinion as to the

appropriateness of the public purpose justification provided by these Metro departments.

Similar issues were noted in the December 2007 Internal Audit report of Louisville Metro Refreshment Expenditures. Due to the overlapping audit periods, corrective actions would not have been implemented as of this review.

Recommendations

Applicable Louisville Metro departments should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Expenditure activity should be coded to the financial accounts most descriptive of the goods / services received. The financial system chart of accounts should be referenced to identify the most appropriate account to use.

- ✓ While specific accounts may not have a budget allocation, they can still be used in many cases to best describe financial activity. All accounts are available to individuals processing financial transactions. The Louisville Metro financial system does not verify budget availability at the account level. Rather internal controls have been established for budget accountability at a higher level (e.g., division, then department).

- ✓ As with most any type of fiscal activity, proper oversight is critical to ensure expenditures are administered appropriately. The individual authorizing the payment, along with staff responsible for monitoring and reconciling disbursements, serve as important internal controls.

- ✓ Ultimately, each department is responsible for administering its fiscal activity in compliance with applicable guidelines. Each Louisville Metro department should review its policies and procedures related to the administration of expenditures. The goal should be ensuring the risks are properly mitigated through the use of internal controls.

Appendix

The following table summarizes the activity in financial account 522999 from July 2007 through February 2008. This is included for informational purposes only.

Department	Number of Transactions	Amount of Transactions
Air Pollution Control	2	$220
Animal Services	42	$8,676
Board of Elections	3	$2,062
Community Action Partnership	37	$12,435
Coroner	8	$46,467
Emergency Management Agency / MetroSafe	11	$7,259
Finance	2	$1,948
Housing	74	$124,149
Information Technology	15	$2,293
Inspections, Permits and Licenses	96	$7,030
Insurance and Risk Management	3	$17,500
Kentuckiana Works	82	$30,706
Louisville Fire and Rescue	26	$40,205
Louisville Metro EMS	57	$6,974
Metro Development Authority	85	$109,091
Metro Parks	1302	$209,752
Neighborhoods and Community Outreach	29	$4,536
Planning and Design Services	68	$60,262
Public Protection Cabinet Secretary	2	$3,272,296
Public Works	8	$0
Revenue Commission	2	$446
Solid Waste Management	57	$382,514
Youth Detention Services	13	$38,183
Zoo	1	$25,000
Grand Total	**2,025**	**$4,410,005**