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# Office of Internal Audit

Public Works and Assets

Federal and State Grants

# Audit Report

Office of Internal Audit

## Public Works and Assets

### Federal and State Grants

May 2008



Public Works and Assets

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**Transmittal Letter**

May 15, 2008

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

**Subject: Audit of Public Works and Assets Federal and State Grants**

**Introduction**

An audit of Public Works and Assets (PWA) Federal and State grants was performed. This included grants which were not reviewed as part of the annual A-133 audit performed by external financial auditors. The objective was to obtain assurance that risks are adequately mitigated through the internal control structure. The primary focus was determining if activity was in compliance with grant requirements and was properly reflected in Metro's financial system and Schedule of Expenditures of Federal Awards records. This was not intended to be a complete A-133 audit.

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

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 expenditure and revenue activity for selected Public Works and Assets grants were reviewed. The focus was ensuring activity was in compliance with grant requirements and was properly reflected in financial reports. The following three projects were included in this review. Total expenditures incurred during the review period (July 1, 2006 through June 30, 2007) are also noted.

- Aiken Road Project, \$517,468
- Mount Washington and Cedar Creek, \$443,524
- Urban Area Security Initiative (UASI) – Transportation Initiative, \$206,025

An understanding of the grants was obtained through reviews of grant award documents, applicable departmental policies and procedures, and interviews of key personnel. A sample of expenditures from each of the grants was selected for review. Documentation reviewed included invoices, payment documents, reimbursement requests, and Metro financial system and Schedule of Expenditures of Federal Awards records. The activity was verified to ensure effectiveness of controls, compliance with grant requirements, and completeness and accuracy of financial records.

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 procedures and data.

### Opinion

It is our opinion that the internal control structure for the Public Works and Assets' Federal and State grants 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. Examples include the following.

- **Timeliness of Reimbursement Request.** There was a delay noted with regards to the timeliness of one reimbursement request in the amount of \$68,989. Delays result in Metro funds being temporarily diverted from other programs, and could impact the amount of funds available for investment opportunities.
- **Receipt of Reimbursement Request.** One reimbursement request in the amount of \$13,387 is being disputed by the State based on an ongoing issue known by both parties. Officials are in discussions in an attempt to facilitate payment.

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

*Corrective Action Plan*

Representatives from Public Works and Assets have reviewed the results and are committed to addressing the issues noted. The PWA corrective action plans are included in this report. We will continue to work with PWA to ensure the actions taken are effective to address the issues noted.

Sincerely,



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

cc: Louisville Metro Council Government Accountability and Audit Committee  
Louisville Metro Council Members  
Director of Public Works and Assets  
Louisville Metro External Auditors

**Internal Control Rating**



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

Public Works and Assets maintains public streets, administers road construction projects, and provides professional engineering and planning services through the administration of various types of projects mainly funded through grant awards. PWA oversees and maintains more than 3,000 miles of roadway and over 750 traffic signals throughout Louisville Metro.

For grants not reviewed as part of the annual A-133 audit performed by external financial auditors, PWA incurred expenditures of approximately \$2,361,000 during fiscal year 2007. This constitutes the population of grant activity for this review. Three grants, accounting for approximately 49% of the expenditures, were selected for review. The grant names, review period expenditures, and a brief description of each are noted below.

- **Aiken Road Project, \$517,468.** Provided for a minimum 18-foot wide roadway, drainage improvements, and addressed shoulder drop-offs and sight distance concerns on Aiken Road from Johnson Road to Ash Avenue, a distance of approximately 0.938 miles. The project was completed during the review period.
- **Mount Washington and Cedar Creek, \$443,524.** Provides for spot improvements to Mount Washington Road, Cedar Creek Road, and Beulah Church Road in Louisville. The project includes the preliminary engineering and environmental design and construction of the three roadways. The project was still active at the end of the review period.
- **Urban Area Security Initiative (UASI) – Transportation Initiative, \$206,025.** The project was designed to improve Louisville Metro Government's ability to control, monitor, and secure all major transportation routes. This included developing a plan and estimating costs to expand and enhance existing TRIMARC system and surveillance cameras located on area roadways. The project was completed during the review period.

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 Public Works and Assets Federal and State grants.

### **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 review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review 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 Public Works and Assets (PWA) on April 30, 2008. An exit conference was held at the PWA administrative office on May 14, 2008. Attending were Ted Pullen and Ben Tipton representing Public Works and Assets; Michael Norman, Mary Ann Wheatley, and Ingram Quick representing Internal Audit. Final audit results were discussed.

The views of Public Works and Assets' officials were received on May 14, 2008 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate 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.”*

Public Works and Assets' response was provided within this required timeframe.

## Observations and Recommendations

### Scope

The expenditure and revenue activity for selected Public Works and Assets (PWA) grants were reviewed. This included grants which were not reviewed as part of the annual A-133 audit performed by external financial auditors. The objective was to obtain assurance that risks are adequately mitigated through the internal control structure. The focus was ensuring activity was in compliance with grant requirements and was properly reflected in financial reports. This was not intended to be a complete A-133 audit.

Three PWA grants were selected for review. The review period covered activity during fiscal year 2007 (July 1, 2006 through June 30, 2007). The grant names and total amount of expenditures incurred during the review period are as follows.

- Aiken Road Project, \$517,468
- Mount Washington and Cedar Creek, \$443,524
- Urban Area Security Initiative (UASI) Transportation Initiative, \$206,025

The combined expenditure total for these grants was \$1,167,017, approximately 49% of PWA's total grant expenditures not reviewed by the external financial auditors.

An understanding of the grants was obtained through reviews of grant award documents, applicable departmental policies and procedures, and interviews of key personnel. A sample of expenditures from each grant was selected for review. Documentation reviewed included invoices, payment documents, reimbursement requests, and Metro financial system and Schedule of Expenditures of Federal Awards records. The audit would not reveal all weaknesses because it was based on a selective review of data.

### Observations

While the overall rating is satisfactory, some minor opportunities were noted with the general administration of Public Works and Assets' grant activity. Specifics include the following.

- **Timeliness of Reimbursement Request.** For one of the twelve reimbursement requests reviewed, a request for \$68,989 was not submitted to the State in a timely manner. Delays in requesting reimbursements result in Metro funds being temporarily diverted from other programs, and impact the amount of funds available for investment opportunities. **(Grant: Aiken Road Project)**
- **Receipt of Reimbursement Request.** One of the twelve reimbursement requests reviewed had not been received at the time of this review. The total amount of the reimbursement request was \$13,387. Per PWA personnel, the reimbursement is being disputed by the State based on an ongoing issue known by both parties. Metro Government officials are in discussions with State officials in an attempt to facilitate payment. **(Grant: Mount Washington and Cedar Creek)**

### **Recommendations**

Appropriate Public Works and Assets' personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Care should be taken by PWA to ensure grant reimbursement requests are made in a timely manner. This will allow for Metro funds to be used in other programs and maximize investment opportunities.
- ✓ PWA and Metro officials should continue with their efforts to obtain all requested grant funds from the State and monitor receipt activity closely to ensure all requested funds are properly recovered and recorded. In addition, PWA should maintain documentation of actions taken to resolve the issue.

### **Public Works and Assets' Corrective Action Plan**

#### **1. Timeliness of reimbursement request**

Management will review with staff the necessity of submitting requests for the reimbursement of Metro expenses within a 30 day timeframe. Management will review random projects with staff to ensure reimbursement request policies are adhered to.

#### **2. Receipt of reimbursement request**

Management will establish a systematic review and reporting process on outstanding reimbursable accounts. Agencies in arrears will be contacted to determine any outstanding issue that would cause a delay in reimbursing Metro. Any issue will be brought to the attention of the Director for review.