



Jerry E. Abramson
Mayor

Louisville Metro Council

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Office of Internal Audit

Office of Management and Budget
Revenue Commission

Revenue Collections

Audit Report

Office of Management and Budget Revenue Commission

Revenue Collections

November 2009

Office of Internal Audit



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Transmittal Letter

November 20, 2009

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

Subject: Audit of Revenue Commission's Revenue Collections

Introduction

An audit of the Revenue Commission's revenue collection process was performed. The Revenue Commission is a division of the Office of Management and Budget. The primary focus of the review was the operational and fiscal administration of the activity and included monthly reporting to Commissioners, clients and Metro Council. The audit also included a review of fees for services charged to clients, as well as the distribution of the collected funds. The objective was to obtain assurance that 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

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 the Revenue Commission's revenue collection activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity and included monthly reporting to Commissioners, clients (e.g., Louisville Metro Government, Jefferson County School Board, Anchorage School Board, and the Transit Authority of River City). The audit also included a review of fees for services charged to clients, as well as the distribution of the collected funds.

The audit period covered revenue collection activity from July 1, 2008 through June 30, 2009. Tests of sample data were performed for the months of October 2008 and April 2009. Activity reviewed included revenue collections, distributions, and supporting documents (e.g., taxpayer forms, checks, bank records, journal vouchers, and operational reports).

The review included assessing whether revenue collection activity was processed, recorded, monitored, and reported accurately and appropriately. The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report. The audit would not identify all issues because it was based on a selective review of data.

Opinion

It is our opinion that the internal control structure for the Revenue Commission's revenue collection activity is satisfactory. The internal control rating is on page 4 of this report. This rating quantifies the opinion regarding the internal controls.

- No observations were noted. No recommendations are necessary at this time.

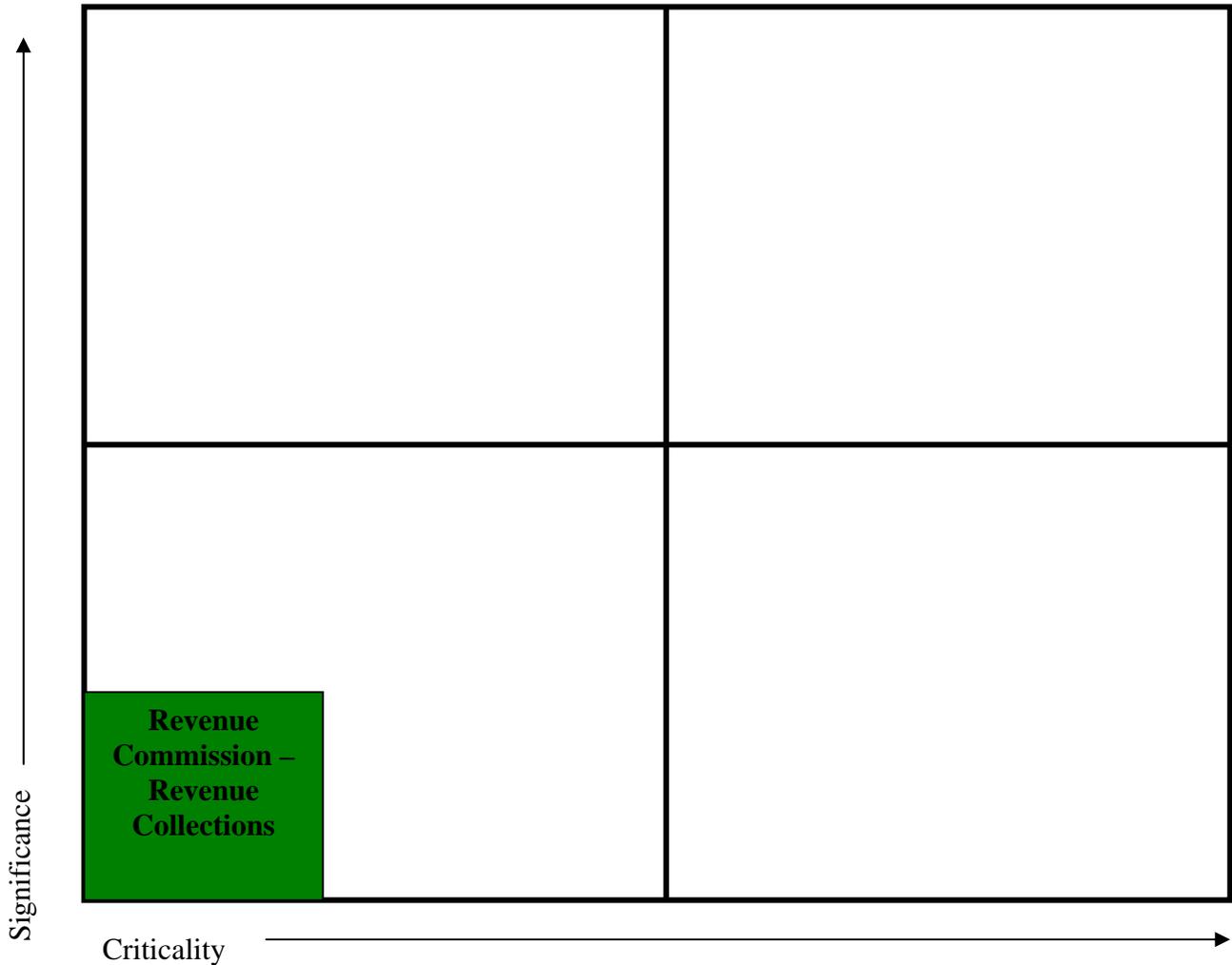
Sincerely,



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

cc: Louisville Metro Council Government Accountability and Oversight Committee
Director of Office of Management and Budget
Louisville Metro External Auditors

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	Satisfactory Not likely to impact operations.	Needs Improvement Impact on operations likely contained.	Inadequate 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

The Revenue Commission collects occupational license fees and other taxes in accordance with state and local regulations. These occupational license fees and taxes are collected for Louisville Metro Government, Jefferson County School Board, Anchorage School Board, and the Transit Authority of River City (TARC). The Louisville Metro Revenue Commission remits the proper amounts to the jurisdictions, after deductions of a contractually agreed amount for the cost of the administration and, for Louisville Metro Government, the amount necessary to pay the annual principal and interest on general obligation bonded indebtedness.

In fiscal year 2009, the Revenue Commission collected approximately \$472 million in fees and taxes.

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 performed a review of the Revenue Commission's revenue collection process.

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 the Revenue Commission on November 13, 2009. It was determined that a formal exit conference was not necessary. Since there were no recommendations made, a formal action plan was not necessary. However, Revenue Commission provided a response, which is included in the Observations and Recommendations section of the report.

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.”*

Revenue Commission’s response was provided within this required timeframe.

Observations and Recommendations

Scope

The Revenue Commission's procedures for administering revenue collections were reviewed through interviews with key personnel. The primary focus of the review was the operational and fiscal administration of the activity. This included assessing whether activity was processed, recorded, monitored, and reported accurately and appropriately.

The audit period covered revenue collection activity from July 1, 2008 through June 30, 2009. Tests of sample data were performed on transactions made during the months of October 2008 and April 2009. A sample of 25 occupational license fee payments was judgmentally selected for review. The sample included occupational license fees on wages, net profits, and insurance premiums. Activity reviewed included revenue collection support documents (e.g., taxpayer forms, checks, bank records, journal vouchers, and operational reports), and state and Louisville Metro Government regulations. Additionally, each of the two months' distribution of collections and fees charged were reviewed. The review would not reveal all issues because it was based on a selective review of data.

Observations

The overall internal control structure is satisfactory. The control structure appears to be effective in mitigating the risks associated with revenue collections. No observations were noted. Specific results are as follows.

- **Administrations of Revenue Collections and Distributions.** There were no observations regarding the accuracy or timeliness of processing, recording, monitoring, reconciling or reporting of revenue collections activities.
- **Fees.** There were no observations regarding the accuracy or timeliness in the processing, recording, monitoring, reconciling or reporting of fees charged to clients (e.g., Louisville Metro Government, Jefferson County School Board, Anchorage School Board, and the Transit Authority of River City).

Recommendations

No recommendations are necessary at this time.

Revenue Commission Response

The Revenue Commission would like to commend the members of our staff for an outstanding job and say thank you for your help with the internal audit review. Your input and dedication contributed greatly to its success. As always, it is greatly appreciated. Thanks again.

Office of Internal Audit
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