



Jerry E. Abramson
Mayor

Louisville 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 Government

2010 Audit Follow-up

Audit Report

Office of Internal Audit

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Audit Follow-up

February 2010



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2010 Audit Follow-up

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OFFICE OF INTERNAL AUDIT
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Transmittal Letter

February 19, 2010

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

Subject: 2010 Audit Follow-up Report

Scope and Purpose

Enclosed is the 2010 Audit Follow-up report. It encompasses audit projects performed from July 2008 through June 2009 that had issues / areas rated as inadequate or needs improvement. It also includes unresolved issues from the 2009 Audit Follow-up report. Some of the projects listed are consultations, in which case a formal report was not issued. A total of 35 projects, representing 76 issues, are included in this report. Of the 76 issues, 39 were carried forward from the 2009 report.

The purpose of performing an audit follow-up review is to determine the status of corrective actions. Not only is this a strong governance and risk management practice, it is also included in the Charter (ordinance) for the Office of Internal Audit. Audit follow-up is also included in Government Auditing Standards and in the International Standards for the Professional Practice of Internal Auditing.

Methodology

Department Directors were requested to provide information on the status of their corrective actions for the issues identified. Based on the information provided, a determination was made as to the status of the corrective action. Some key points to consider are as follows.

- Departments self-report the status of their corrective actions.
- We did not perform additional audit work to verify the corrective actions. However, the corrective actions in the higher risk areas will be reviewed when the area cycles through our audit plan.
- For many of these areas, we are involved as corrective actions are implemented. The issuance of an audit report is not the end of our relationship with the departments.
- Several of the issues are not easily correctable, and are not necessarily controllable by the departments. Thus, corrective actions take longer to fully implement.
- In some cases, departments will assume the risk rather than try to mitigate it. This may be a sound approach, especially if the benefits of the corrective actions do not outweigh the costs.

Report Format

The report is categorized by the status of the corrective actions as follows:

Corrective action implemented and self-assessment of effectiveness completed
Some corrective action implemented but not completed or self-assessment of effectiveness not performed
Corrective action evaluated and no further action is intended; Department assumes risks associated with issue
Corrective action not evaluated, planned, or implemented
Department did not respond to request for corrective action information

Within each status, the report is sorted by department – division, and then alphabetically by the particular area. For purposes of brevity, only the original issues are noted, details of the current corrective actions are not. This information may be provided upon request.

Conclusion

Overall, there has been considerable progress in addressing the issues through implementation of corrective actions. The progress demonstrates the commitment to an efficient and effective local government and highlights the quality of leadership within

Louisville Metro Government departments. There were no areas falling in the red or black categories. We commend the Directors for their efforts.

This report also highlights the value of the Office of Internal Audit. While we do not implement the corrective actions, we are often the catalyst for change that results in a more efficient and effective government. We will continue to work with Departments to ensure significant issues and risks are addressed.

If you have any questions, or would like to discuss this report in more detail, please let me know.

Respectfully submitted,



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

cc: Louisville Metro Council Government Accountability and Oversight Committee
Louisville Metro External Auditors
Department Directors (e-file)

Audit Follow-up Report

The Audit Follow-up results begin on the following page. These are presented within the categories noted below. Within each category, the results are presented alphabetically by department – division / area. An index of departments is included in the report on page 17.

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Corrective action evaluated and no further action is intended; Department assumes risks associated with issue	16
Corrective action not evaluated, planned, or implemented	N/A
Department did not respond to request for corrective action information	N/A

Corrective action implemented and self-assessment of effectiveness completed

Department – Division	Area	Issues	Report (Consultation) Date
Codes and Regulations – Inspections, Permits and Licenses	ABC Licenses and Permits Revenue – ABC Fine Activity Processing	System related issues prevent fines due from being noted in the system.	11/14/2008
Codes and Regulations – Inspections, Permits and Licenses	ABC Licenses and Permits Revenue – General Administration	The lack of notification for small city applicants that owe Metro fees; refund reports that are not detailed enough to identify transactions by specific areas; and no system identifier for Metro denied applicants.	11/14/2008
Codes and Regulations – Inspections, Permits and Licenses	ABC Licenses and Permits Revenue – Monitoring and Reconciliation	Due to the time of day that cash drawer closings are performed, they cannot be verified to activity reports to ensure all revenue is properly accounted for; system provided functionality is not being used during the cash drawer closings / counts; ABC revenue postings are processed daily to a temporary, non-related revenue account, and moved weekly to the appropriate account.	11/14/2008
Enterprise	Direct Deposit – Policy Compliance	Several employees were not compliant with policy. It appears policy does not provide sufficient guidance as to applicable personnel. Also, policy does not address monitoring responsibilities to ensure compliance.	7/15/2008
Enterprise	Employee Cell Phone Tax Liability	Reviewed Internal Revenue Service information regarding taxable liability for cellular telephones. It appears that IRS may consider the value of employee reimbursements for personal use of Louisville Metro telephones as taxable. Information shared with Louisville Metro departments for determination of further action. Provided additional information related to U.S. House Bill 5450.	4/9/2009
Enterprise	Ethics Program – Assessments of Effectiveness – Monitoring	Monitoring for compliance is specific to various policies and procedures since there is no comprehensive Ethics Program. Audits are conducted which may detect criminal conduct or ethical behavior issues, but these are not routinely performed with detection as the primary objective.	8/25/2008
Enterprise	Ethics Program – Assessments of Effectiveness – Reporting	Louisville Metro Government does not have a comprehensive system for reporting criminal conduct or possible ethical violations. Some channels exist for general reporting of activities but they are not anonymous or confidential. Louisville Metro does not have a formal process specifically designed for ethical behavior questions, nor an enterprise-wide policy regarding reporting offenses to authorities.	8/25/2008

Corrective action implemented and self-assessment of effectiveness completed

Department – Division	Area	Issues	Report (Consultation) Date
Enterprise	Ethics Program – High-Level Responsibility for Ethics Program	The overall responsibility for Louisville Metro's Ethics Program has not been assigned to one high-level individual. There is not an Ethics Officer. A specific individual has not been delegated day-to-day operational responsibility for various components that comprise Louisville Metro's Ethics Program.	8/25/2008
Enterprise	Ethics Program – Incentives and Penalties	Various Louisville Metro policies address performance expectations as well as disciplinary measures. Formal incentives are not provided for ethics compliance.	8/25/2008
Enterprise	Ethics Program – Modifications after Criminal Conduct Detected	Louisville Metro's personnel policies are broad enough to encompass all criminal conduct. Therefore, modifications after detection of criminal conduct are not usually necessary.	8/25/2008
Enterprise	Payroll Review 2008 – Policy Compliance	Cases noted in which compensation paid to employees was either not in compliance with, or not addressed in, Louisville Metro Personnel Policies. This included pay for annual vacation payout, terminated compensatory pay, service purchase credit, and additional income.	4/14/2009
Enterprise	Refreshment Expenditures – Fringe Benefit Tax Issue	It appears refreshment activity would be considered de minimis fringe benefit and thus excluded from gross income. However, particular circumstances of each transaction are the ultimate determining factor. Departments should review their own policies and procedures and be aware of possible fringe benefit tax issues.	12/28/2007
Housing and Family Services – Housing	Home Repair Program – General Administration	Internal policies and procedures not updated for current practices.	12/21/2007
Housing and Family Services – Housing	Investor Loan Program – Delinquent Loans – Responsibility	Housing unsure of role for addressing delinquent loans. This is impacted by Louisville Metro Finance and Kentucky Housing Corporation.	10/29/2007
Information Technology	LeAP (Oracle) – General Controls	Disaster recovery plan. Need to move backup tapes offsite. Monitoring of logs. Document retention.	6/3/2004
Information Technology	PeopleSoft – Database Security and Controls	Auditing not enabled.	8/5/2004
Information Technology	Perimeter Firewalls and Email Usage Controls – Off-site Tape Storage	Current storage location of backup tapes may not provide adequate protection in the event of a major disaster.	6/22/2007

Corrective action implemented and self-assessment of effectiveness completed

Department – Division	Area	Issues	Report (Consultation) Date
Neighborhoods	Revenue Administration (Brightside) – Development Office Revenue Management System	There were some issues noted that limit the usefulness of the Development Office computer database used to administer revenue. Limited technical support likely impairs the ability to use the software package to its fullest extent. Some reporting for revenue receipts, along with the management of donation pledges, requires manual manipulation. This is inefficient and requires additional staff resources to manage the activity.	5/29/2007
Police	Court Pay Process – Activity Processing	Court continuance requests are recorded in the subpoena tracking system in an inconsistent manner and may not be submitted timely. Unable to track how many cases are dismissed due to Police not showing up for court. Several cases where Police did not appear for court timely.	3/25/2008
Police	Federal and State Forfeitures – General Administration	Standard Operating Procedures do not address Federal forfeiture processes, and in some cases do not agree with current practices. The proceeds from forfeited property sold through auction may not be distributed properly according to State statute.	6/19/2009
Police	Federal and State Forfeitures – Records Management	System reports for the new records management system have not been developed. Viewing of some data has not been established to assist in the verification, deposit, and reconciliation of seized currency. No consistent mechanism in place to track when forfeitures are sought on seized assets. Forfeiture requests are not tracked in the records management system.	6/19/2009
Public Protection – Animal Services	Revenue and Operations Administration – Policies and Procedures	There are no documented departmental Standard Operating Procedures for the overall administration of Metro Animal Services operations or the use of the animal management computer system.	8/31/2007
Public Protection – EMA / MetroSafe	MetroSafe Emergency Communications Systems – Backup and Recovery	Backup tapes are regularly removed from Louisville Metro premises without documented authorization from Metro Technology Services.	3/20/2009
Public Protection – EMA / MetroSafe	MetroSafe Emergency Communications Systems – Management of Outsourced Services	Contract with service provider is out of date, month to month agreement being used. Service level agreements and responsibilities of application maintenance and monitoring are not clear.	3/20/2009
Public Protection – EMA / MetroSafe	MetroSafe Emergency Communications Systems – Physical Security	Security review of new data center when completed.	3/20/2009

Corrective action implemented and self-assessment of effectiveness completed

Department – Division	Area	Issues	Report (Consultation) Date
Public Protection – EMA / MetroSafe	MetroSafe Emergency Communications Systems – Policies and Procedures	Formal application policies and procedures have not been developed.	3/20/2009
Public Protection – EMA / MetroSafe	MetroSafe Emergency Communications Systems – Storage of Application Documentation	CAD vendor and application documentation is not centrally stored.	3/20/2009
Public Protection – Fire	CPR Training Center – Monitoring and Reconciliation	Activity not reconciled on a daily basis and not reconciled to system reports. Deposits could not be verified as accurate / complete due to inefficiencies and inadequate support documentation. No documented reconciliation to ensure transactions posted properly.	6/23/2006
Public Protection – Fire	Incentive Pay – General Administration	Incomplete incentive pay related forms.	2/11/2009
Public Protection – Fire	Incentive Pay – Incentive / Pension Reimbursement Requests	Louisville Metro Finance Payroll division does not have documented policies or procedures to guide personnel in the completion of the monthly reimbursement form submitted to the State Fire Commission. Paperwork is completed based on past practices, of which the usefulness is not readily apparent and cannot be verified as accurate. There were some months where the amounts requested differed from the payments received. The net result was Louisville Metro was overpaid approximately \$5,800. There was one month where the incentive request was miscalculated, resulting in Louisville Metro being owed approximately \$60,690.	2/11/2009
Public Works and Assets	Capital Projects – Contractual	Several cases in which expenditures for items billed on suppliers' invoices were not included in the contractual terms. Results of negotiations have not been consistently documented. There were a number of cases in which it could not be determined if the project expenditure was in compliance with contractual terms due to a lack of supporting documentation.	12/16/2008

Corrective action implemented and self-assessment of effectiveness completed

Department – Division	Area	Issues	Report (Consultation) Date
Public Works and Assets – Fleet Services	Parts Room Operations – General Administration	Comprehensive, documented policies and procedures for parts room operations were not available. Payments to contractor performed in an inefficient manner.	8/5/2008
Public Works and Assets – Fleet Services	Parts Room Operations – Monitoring and Reconciliation	Vehicle users do not receive sufficient support documentation to verify service activity. Standard monitoring reports from the Fleet system are not available to user departments. Fleet system not accessed by user departments. One case of identical parts used on the same vehicle within a week.	8/5/2008
Public Works and Assets – Fleet Services	Parts Room Operations – Parts Room Contract	Due to a lack of contract oversight, several parts costs were not in compliance with contractual rates. This resulted in incorrect charges to Louisville Metro.	8/5/2008
Public Works and Assets – Operations and Maintenance	Vacant Lots Program – Reporting of Grant Funded Activity	Costs recorded in the MIDAS system do not specify the funding source, such as Community Development Block Grant (CDBG) or General Fund. Grant guidelines require that reimbursements of CDBG expenditures be recorded as program income for the grant.	4/23/2007

Some corrective action implemented but not completed or self-assessment of effectiveness not performed

Department – Division	Area	Issues	Report (Consultation) Date
Codes and Regulations – Inspections, Permits and Licenses	ABC Licenses and Permits Revenue – ABC Fine Activity Processing	There is an inability to apply fine payments when renewal fees are due. There are no desktop policies and procedures to guide personnel in the administration of fine activity. No backup personnel designated to cover in the absence of staff responsible for administering fine activity. Monitoring of fine activity is a very manual process.	11/15/2008
Codes and Regulations – Inspections, Permits and Licenses	ABC Licenses and Permits Revenue – General Administration	No comprehensive policies and procedures. Missing or incomplete licensee file documentation.	11/15/2008
Economic Development	Metco Loan Program – General Administration	Reconciliation of activity is incomplete and not formally documented. Individual discretion is used regarding delinquent accounts - no guidelines to follow or oversight. Site visits not documented. Loan files not kept secured.	8/11/2008
Economic Development	Metco Loan Program – Loan Payment Processing	Finance does not reconcile loan payment activity to ensure agreement with bank deposits. Loan payments not deposited timely. No desktop policies for loan payment processing.	8/11/2008
Economic Development	Metco Loan Program – Loan System	New loan management software is needed to improve administration of loan activity. All users share same logon and password. Functional access to system is not restricted.	8/11/2008
Economic Development – Air Pollution Control	Revenue Management – Computer Systems	Multiple, old and antiquated systems.	7/25/2005
Enterprise	Ethics Program – Communication and Training	Louisville Metro Government does not offer or require training for ethical behavior. Though some employees are covered by the Code of Ethics (primarily elected officials and directors), this only requires periodic training. It is focused on Code of Ethics only, not a comprehensive ethical behavior training program.	8/25/2008

Some corrective action implemented but not completed or self-assessment of effectiveness not performed

Department – Division	Area	Issues	Report (Consultation) Date
Enterprise	Ethics Program – Employee Survey	Perceptions of disciplinary actions are easily influenced by "grapevine" communication. Individuals may not understand the underlying risks that controls are intended to mitigate, and may be willing to override the controls. Due to Louisville Metro's workforce size, and the public nature in which it operates, presenting a consistent "tone at the top" is more difficult. Employees are more familiar with the daily activities of their immediate managers and more influenced by their managers' actions regarding ethical behavior than by executive level management. This impacts effectiveness of "tone at the top" messages and actions. Funding constraints coupled with no corresponding reduction in services can result in pressure (real or perceived) to meet performance targets.	8/25/2008
Enterprise	Ethics Program – Standards and Procedures	There is not a comprehensive Ethics Program for all Louisville Metro Government employees. Current program consists of various policies, both enterprise-wide and department specific.	8/25/2008
Enterprise	Miscellaneous Revenue	Missing interest payment (\$13,500) related to Humana Clock Tower receipts.	12/18/2007
Enterprise	Payroll Review 2008 – Processing Mistakes	There were some cases noted where employee pay was not processed appropriately. This resulted in one employee being overpaid \$27,759, and several cases where Louisville Metro overpaid pension costs.	4/14/2009
Enterprise	Refreshment Expenditures – Departmental Policies	Louisville Metro does not have a policy for refreshment expenditures. As a result, inconsistencies exist among Louisville Metro departments as to what is appropriate refreshment expenditure.	12/28/2007
Enterprise	Refreshment Expenditures – Documentation	Louisville Metro does not have a policy for refreshment expenditures. As a result, inconsistencies exist among Louisville Metro departments as to how to properly document activity.	12/28/2007
Enterprise	Refreshment Expenditures – Enterprise Guidance	Louisville Metro does not have public purpose defined in its policies and procedures. As a result, inconsistencies exist among Louisville Metro departments as to what is appropriate refreshment expenditure.	12/28/2007
Enterprise	Refreshment Expenditures – Procurement Efficiency / Economy	Departments should review their activity to determine if efficiency / economy opportunities exist via the use of contracts.	12/28/2007

Some corrective action implemented but not completed or self-assessment of effectiveness not performed

Department – Division	Area	Issues	Report (Consultation) Date
Housing and Family Services – Housing	Home Repair Program – General Administration	Delays in receiving communication regarding foreclosures from County Attorney's Office.	12/21/2007
Housing and Family Services – Housing	Investor Loan Program – Delinquent Loans - Data Integrity	Issues with integrity and reliability of loan database. Therefore, unsure of status of loans, and if database is complete.	10/29/2007
Housing and Family Services – Housing	Ramp Program (County Community Development)	Overbilling for ramp construction. In July 2006, Commonwealth Attorney determined that there were not sufficient grounds to move forward with criminal charges. Information provided to County Attorney for pursuing civil action. County Attorney attempted to negotiate with contractor, but unsuccessful. Lawsuit filed December 2006.	N/A
Human Resources	Fraud Policy	Consulted regarding fraud policy for Louisville Metro Government.	3/24/2006
Information Technology	Perimeter Firewalls and Email Usage Controls – Disaster Recovery and Business Continuity	Louisville Metro does not have a comprehensive disaster recovery plan that addresses the recovery of information technology systems in the event of a disaster.	6/22/2007
Information Technology (MSD)	MIDAS (Hansen) – Application Controls	Identical user names and passwords.	10/5/2004
Information Technology (MSD)	MIDAS (Hansen) – General Controls	Lack of disaster recovery plan.	10/5/2004
Office of Management and Budget – Finance Operations	Lockboxes	Consulted regarding use of lockboxes for loan processing functions for various Louisville Metro Agencies.	10/1/2004
Office of Management and Budget – Purchasing	Contract Change Order Process – General Administration	Lack of enterprise policy. No departmental policies and procedures for Facilities, Parks, Public Works. Inconsistent project documentation. Usage for adding work to project which may bypass procurement process.	12/18/2006

Some corrective action implemented but not completed or self-assessment of effectiveness not performed

Department – Division	Area	Issues	Report (Consultation) Date
Parks and Recreation	Farnsley-Moreman Revenue – Revenue Management	Several concerns were noted regarding the general administration of revenue activity. This included reporting of activity and monitoring and reconciliation.	1/25/2006
Parks and Recreation	Farnsley-Moreman Revenue – Riverside Inc.	There is no documented agreement between Louisville Metro and the non-profit organization.	1/25/2006
Police	Court Pay Process – Reconciliation	Inadequate reconciliation of court pay activity. This includes the upload of court activity from the subpoena tracking system to Louisville Metro payroll system, off-duty status indications by employees, brief court appearances, and monthly reports.	3/25/2008
Public Protection – Animal Services	Revenue and Operations Administration – Fiscal Administration	Metro Animal Services is not following-up for animal licenses that may be unpaid.	8/31/2007
Public Protection – Corrections	Inmate Management System – Oracle Database	The database auditing system has not been implemented.	5/17/2006
Public Protection – Corrections	Inmate Account – Booking Fee Activity	Inmate Management System does not reflect actual collections.	9/12/2005
Public Protection – Corrections	Inmate Account – General Administration	Lack of complete documented policies and procedures.	9/12/2005
Public Protection – EMA / MetroSafe	MetroSafe Emergency Communications Systems – Disaster Recovery Plan	A comprehensive disaster recovery plan has not been formally established, documented and / or tested for the Communications and Dispatch (CAD).	3/20/2009
Public Protection – Fire	Incentive Pay – General Administration	Lack of a formal documented reconciliation. Outdated standard operating procedures.	2/12/2009
Public Works and Assets – Fleet Services	Parts Room Operations – Computer Systems	The contractor’s computer system does not interface with Fleet’s Chevin system. Therefore, parts procured by Fleet Services cannot be verified until they are imported into the Chevin system no earlier than the following day. This increases the risk that verification of system accuracy is not performed by mechanics, supervisors, and user departments. Interagency Billing issues.	8/5/2008

Some corrective action implemented but not completed or self-assessment of effectiveness not performed

Department – Division	Area	Issues	Report (Consultation) Date
Public Works and Assets – Operations and Maintenance	Vehicle Impoundment Division Revenue – Efficiency and Effectiveness	Activity is administered mainly using a manual process. While cash register systems are used, along with information managed using general software, most files and records are handwritten. In addition, revenue receipts are processed using two stand-alone cash register systems.	8/11/2006
Public Works and Assets – Operations and Maintenance	Vehicle Impoundment Division Revenue – Segregation of Duties	The cashier has the ability to run register activity reports independently.	8/11/2006

Corrective action evaluated and no further action is intended; Department assumes risks associated with issue

Department – Division	Area	Issues	Report (Consultation) Date
Codes and Regulations – Inspections, Permits and Licenses	Permit Refund Process	Consulted regarding refund policy as well as feasibility of establishing escrow accounts for contractors. Goal is to reduce the administrative workload associated with contractors' overpaying for permits.	7/26/2006
Codes and Regulations – Inspections, Permits and Licenses	ABC Licenses and Permits Revenue – Monitoring and Reconciliation	Cashiers have the ability to view system receipt information and print activity reports.	11/14/2008
Enterprise	Ethics Program – Risk Assessments	Louisville Metro does not have a risk management function that is responsible for ethical program risk assessments. An enterprise risk management policy has not been implemented.	8/25/2008
Public Health and Wellness	Billing and Collection Division (Follow-up) – Billing Process	Services provided to patients incarcerated at the Youth Detention Center are not billed.	6/16/2005
Public Protection – Fire	CPR Training Center – General Administration	Accounts receivable process manual and inefficient.	6/23/2006

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