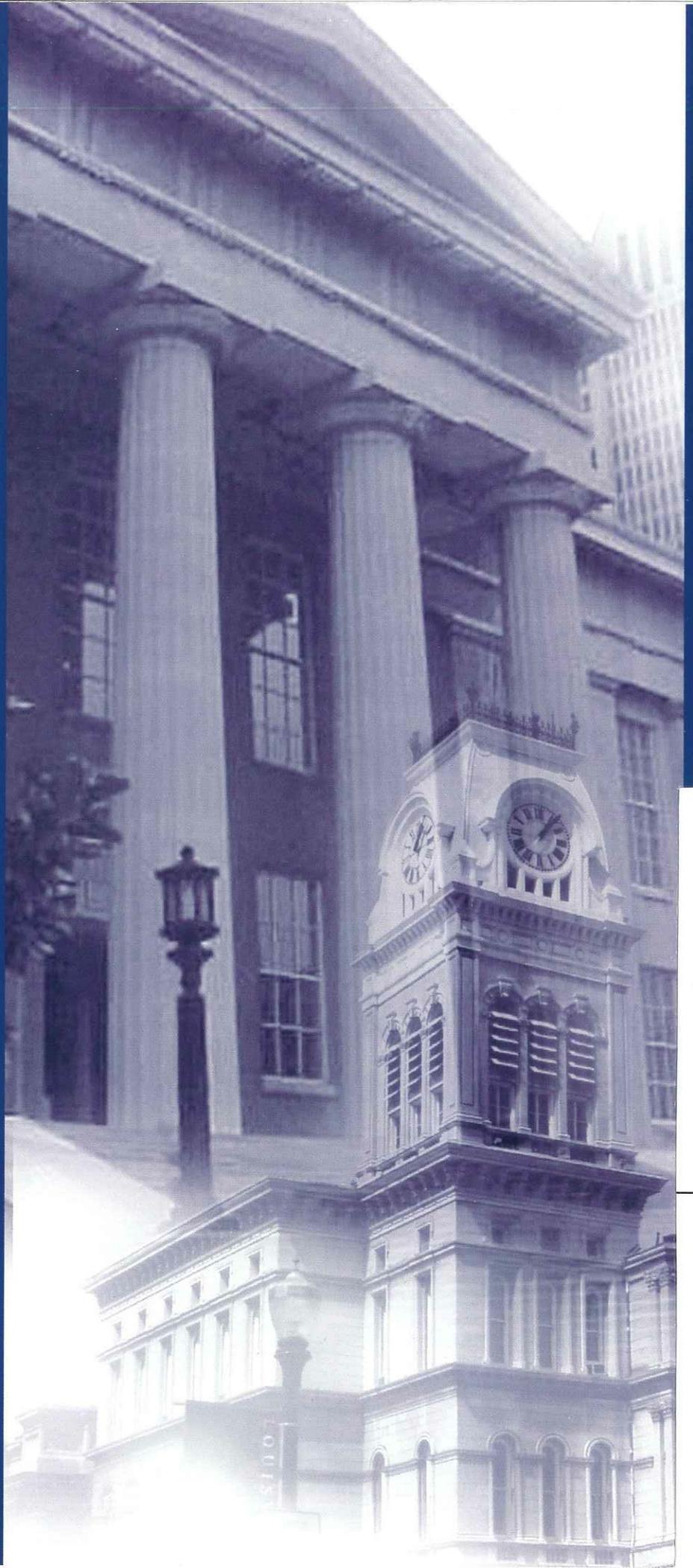




Jerry E. Abramson
Mayor

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 Police
Department

Incentive Pay

Audit Report

Office of Internal Audit

Louisville Metro Police Department

Incentive Pay

February 2010



Louisville Metro Police
Department

Incentive Pay

Table of Contents

Transmittal Letter 2

 Introduction..... 2

 Scope..... 3

 Opinion 3

 Corrective Action Plan..... 4

 Internal Control Rating 5

 Background..... 6

 Summary of Audit Results..... 6

Observations and Recommendations..... 8

 #1 – Monitoring and Reconciliation 9

 #2 – General Administration..... 11

 LMPD’s Corrective Action Plan..... 12



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

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Transmittal Letter

February 17, 2010

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

Subject: Audit of Louisville Metro Police Department's Incentive Pay

Introduction

An audit of the Louisville Metro Police Department's (LMPD) incentive pay was performed. The primary focus of the review was the operational and fiscal administration of incentive pay activity. This included how the activity is processed, recorded, and monitored. 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

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 procedures for administering LMPD incentive pay activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity, to include ensuring that eligible LMPD employees were appropriately paid and that Louisville Metro was properly reimbursed from the Kentucky Law Enforcement Council (KLEC). Tests of sample data were performed on activity from May and August 2009. Activity reviewed included payroll system reports of employee earnings, KLEC rosters and corresponding monthly reimbursement documentation, LMPD training records, and Louisville Metro financial system postings.

The review included assessing whether activity was processed, recorded, and monitored 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 administration of LMPD's incentive pay activity needs improvement. The internal control rating is on page 5 of this report. The rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Monitoring and Reconciliation.** A reconciliation of the monthly reimbursements from KLEC and the corresponding support documentation is not performed to ensure the amount paid is appropriate (i.e., that the detailed listing of officers and reimbursement amounts are appropriate).
 - Several exceptions were noted during the review of monthly KLEC reimbursements and corresponding payroll activity. Exceptions included reimbursements for officers on unpaid leave or no longer employed by LMPD, no reimbursement for officers receiving incentive pay, reimbursement of the retirement expense for an officer that does not participate in LMPD's retirement program, and inaccurate social security numbers.

Since there have not been any prior reconciliations of activity, it could not be determined if the exceptions were appropriate.
- **General Administration.** There were some issues noted with the general administration of LMPD's incentive pay activity.
 - There is not adequate technical support of the database used by LMPD to track officers' training activity. The training database was created prior to the merger of the City and County Police Departments, and the individual that created the

database is no longer with Metro Government. This creates a risk that training records could be lost in the event of a system failure or glitch.

It should be noted that LMPD Training is currently working with Metro Technology Services to begin using Louisville Metro's PeopleSoft Human Resource System for the tracking of training records. The PeopleSoft system should provide LMPD with more advanced tracking and reporting capabilities, as well as adequate support from Metro Technology Services personnel.

- LMPD does not have documented desktop policies and procedures to guide in the administration of training activity.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the administration of LMPD's incentive pay activity.

Corrective Action Plan

Representatives from the Louisville Metro Police Department have reviewed the results and are committed to addressing the issues noted. LMPD's corrective action plans are included in this report. We will continue to work with LMPD to ensure the actions taken are effective to address the issues noted.

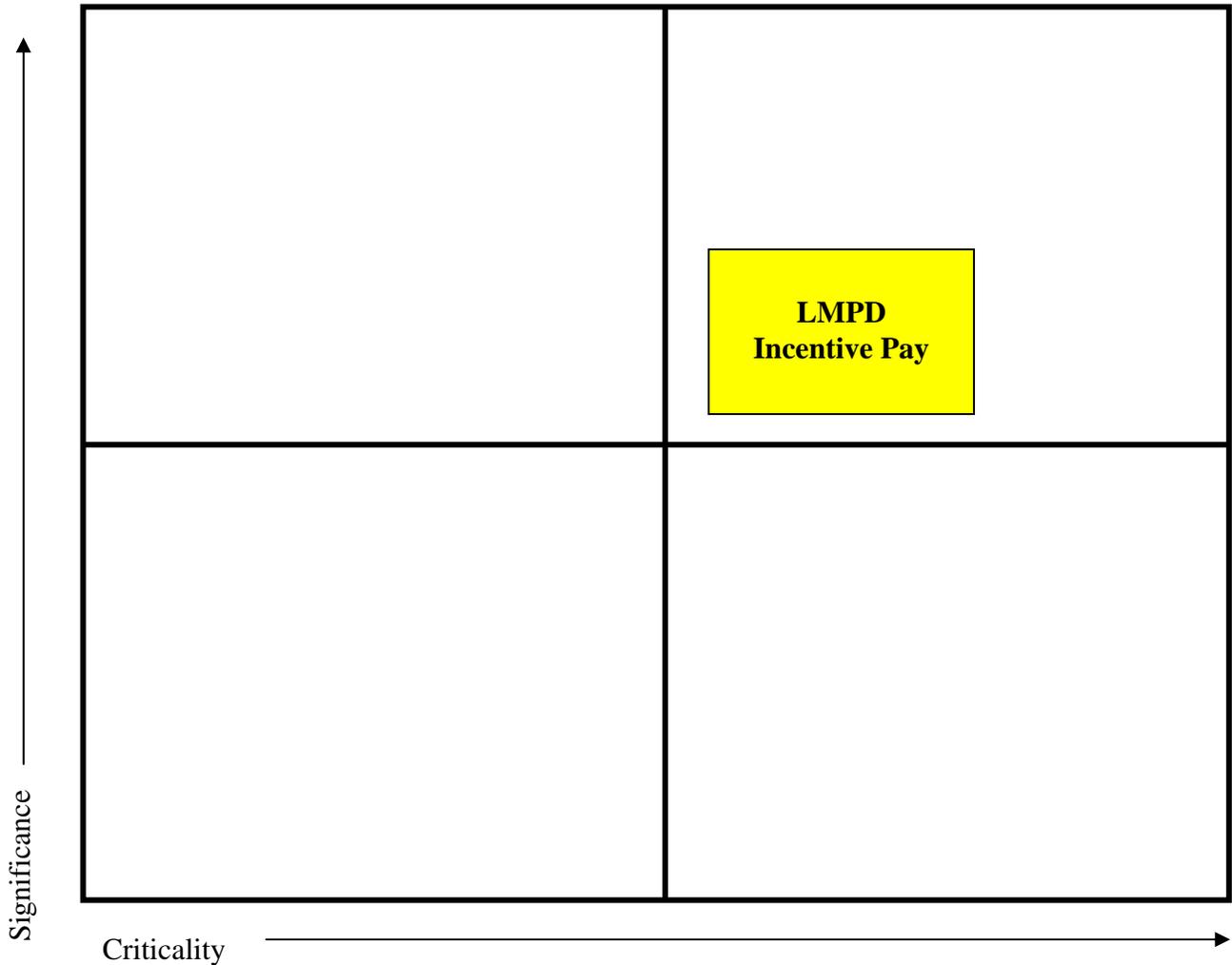
Sincerely,



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

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

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	<u>Satisfactory</u> Not likely to impact operations.	<u>Needs Improvement</u> Impact on operations likely contained.	<u>Inadequate</u> 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 Louisville Metro Police Department participates in the Kentucky Law Enforcement Foundation Program Fund (KLEFPF), an incentive pay program administered by the Kentucky Law Enforcement Council (KLEC). The program allows LMPD to receive a reimbursement for incentive pay and associated retirement expenses it incurs for each qualified police officer it employs. All LMPD officers must actively participate in the incentive pay program for Louisville Metro to receive the reimbursements.

Officers are eligible to receive incentive pay after successfully completing recruit training and becoming a sworn officer. To remain entitled to receive incentive pay, an officer must also complete at least forty hours of additional training each calendar year and earn a passing grade. The training must be taken at a KLEC accredited law enforcement school or academy. Qualifying officers receive \$3,100 annually in incentive pay. During fiscal year 2009, LMPD was reimbursed approximately \$3.6 million for incentive pay and \$1.1 million for associated retirement expenses.

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 a review of Louisville Metro Police Department's incentive pay 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 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 Louisville Metro Police Department on January 20, 2010. An exit conference was held at LMPD's administrative office on February 10, 2010. Attending were Lieutenant Colonel Yvette Gentry, Amy McTyeire, and Cheryl Triplett representing LMPD; Michael Norman and Mary Ann Wheatley representing Internal Audit. Final audit results were discussed.

The views of LMPD officials were received on February 12, 2010 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.”*

LMPD's response was provided within this required timeframe.

Observations and Recommendations

Scope

The Louisville Metro Police Department's (LMPD) procedures for administering incentive pay activity were reviewed through interviews with key personnel. The primary focus was the operational and fiscal administration of the activity. This included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The objective was to ensure that eligible LMPD employees were paid appropriately and that Louisville Metro was properly reimbursed from the Kentucky Law Enforcement Council (KLEC).

Tests of sample data were performed on activity from May and August 2009. Activity reviewed included payroll system reports of employee earnings, KLEC rosters and corresponding monthly reimbursement documentation, LMPD training records, and Louisville Metro financial system postings. The review would not reveal all weaknesses because it was based on selective review of data.

Observations

Issues were noted with the administration of LMPD's incentive pay activity. As a result, the effectiveness of the internal control structure is impaired and needs improvement. Opportunities noted to strengthen the controls are as follows.

#1 – Monitoring and Reconciliation

#2 – General Administration

Details of these observations begin on the following page.

#1 – Monitoring and Reconciliation

Issues were noted with the monitoring and reconciliation of monthly incentive pay activity. Specifics include the following.

- **Monthly Reconciliation.** The Kentucky Law Enforcement Council (KLEC) reimburses LMPD monthly for the incentive pay and associated retirement expense paid by Louisville Metro on behalf of each eligible officer. A roster of eligible officers and their applicable incentive and retirement amounts are submitted with the reimbursement as support of the amount paid. However, no one is reconciling the reimbursement amount to the corresponding roster details to ensure the amount paid is appropriate (i.e., that the detailed listing of officers and amounts is appropriate).
 - The Office of Management and Budget (OMB) Accounting division receives the monthly roster and reimbursement from KLEC. Accounting personnel sign a KLEC verification and receipt of funds form acknowledging that the information submitted by KLEC has been reviewed and verified for accuracy. Though the check amount is verified to the grand total noted on the roster, a detailed review of officers and amounts to ensure accuracy is not performed by Accounting personnel.
 - The KLEC roster is stored / maintained by OMB's Payroll division. Payroll personnel do not review the roster for accuracy.
 - LMPD Human Resources personnel do not receive any of the documentation related to the monthly reimbursement from KLEC. Therefore, they do not conduct a review or verification of the information submitted.

The lack of a reconciliation increases the risk that reimbursement errors (overpayments / underpayments) could go undetected.

- **Reimbursement Exceptions.** Several exceptions were noted during a review of monthly KLEC reimbursements and corresponding payroll activity. Since there have not been any prior reconciliations of activity it could not be determined if the exceptions were appropriate.
 - There were several cases where a reimbursement was received from KLEC though incentive pay was not paid to the officer. It appears the officer had a status that did not warrant incentive pay from Louisville Metro.
 - In eight cases (involving four officers), the officer had retired. Retirement dates ranged from June 1, 2008 to February 2, 2009, indicating there may potentially be several cases of reimbursements made when not due.
 - In five cases (involving three officers), the officer was on unpaid military leave.
 - There were four cases where an officer was paid incentive pay from Louisville Metro but KLEC did not reimburse the pay.
 - There were two cases where KLEC reimbursed Louisville Metro for the retirement expense of an officer. However, the officer does not participate in Louisville Metro's retirement program; therefore, Louisville Metro does not pay retirement expense on the officer. Since the officer would have opted out of the retirement program many years ago, it is not certain how long KLEC has been paying the retirement reimbursement for the officer.

- There were nine cases where an officer's social security number was not noted properly on the KLEC roster. This made it difficult to reconcile reimbursement activity to actual incentive pay activity.
 - In one case, the officer was noted twice on the KLEC roster, once with a valid number and appropriate reimbursement amount, and once with an invalid number and a \$0 reimbursement.
- Some discrepancies were noted with the individual amounts reimbursed by KLEC and incentive amounts paid by Louisville Metro.
 - In two cases KLEC reimbursed an amount varying from the standard of \$258.33 per month.
 - In seven cases Louisville Metro paid an amount varying from the standard of \$119.28 per pay period.

Recommendations

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

- ✓ Appropriate LMPD personnel should routinely monitor and reconcile incentive pay activity. This includes actual incentive pay to officers, as well as the monthly reimbursement received from KLEC. The reconciliation should be documented, and explanations and corrective actions should be noted where exceptions occur. Documentation should also include who performed the reconciliation and when it was performed. This will help ensure the accuracy of incentive pay activity and provide accountability for the verification and monitoring efforts.
- ✓ LMPD should contact Metro Technology Services for assistance with reporting needs in order to reconcile incentive pay activity. System reports (PeopleSoft) should be developed that will provide LMPD with incentive pay data needed to verify the monthly roster report submitted by KLEC.
- ✓ LMPD should contact OMB regarding the completion of the KLEC verification and receipt of funds form sent each month. Ideally, LMPD should reconcile the monthly activity / payment and therefore, should sign the acknowledgement form. The form should not be signed without a thorough reconciliation being performed.
- ✓ Appropriate LMPD personnel should research the incentive pay discrepancies noted. For any cases where KLEC is reimbursing for officers in an unpaid status, KLEC should be informed so records can be updated and reimbursements stopped. Similarly, KLEC should be notified of discrepancies involving inaccurate social security numbers. There may also be cases where Louisville Metro records need to be updated to ensure appropriate incentive monies are paid properly.
- ✓ A determination should be made regarding the corrective action to take in cases where KLEC either over / under reimbursed for incentive pay. It may be determined that past payments cannot be adjusted. No matter the determination, LMPD needs to maintain support documentation of the point in time that incentive pay reconciliations begin.

#2 – General Administration

Issues were noted with the general administration of monthly incentive pay activity. Specifics include the following.

- **Training Database.** There is not adequate technical support of the database used by LMPD to track officers' training activity. The training database was created prior to the merger of the City and County Police Departments. The individual that created the database is no longer with Metro Government. The database can be restored from its latest back-up, but no other technical support is provided from LMPD or Metro Technology Services (MTS) staff. This creates a risk that training records could be lost in the event of a system failure or glitch.

It should be noted that LMPD Training is currently working with MTS to begin using Louisville Metro's PeopleSoft Human Resource System for the tracking of training records. The PeopleSoft system should provide LMPD with more advanced tracking and reporting capabilities, as well as adequate support from MTS personnel.

- **Documented Procedures.** LMPD does not have documented desktop policies and procedures to guide in the administration of training activity (i.e., forms to complete, data entry, records to maintain). This increases the risk of non-compliance with intended policy and can lead to inconsistencies and inefficiencies with activity processing.
- **Support Documentation.** The OMB Payroll division did not have documentation to support the annual incentive amount paid to officers. Payroll is responsible for the setup of pay as it relates to Louisville Metro earn codes. Documentation of pay rates help support the amounts assigned to specific earn codes. It appears the incentive amount increased to the current rate of \$3,100 in 2001.

Recommendations

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

- ✓ LMPD should continue with their efforts to begin using the PeopleSoft Human Resource System as the primary method of tracking officer training. The PeopleSoft system should provide LMPD with more advanced tracking and reporting capabilities, as well as adequate support from Metro Technology Services personnel.
- ✓ Appropriate LMPD personnel should document policies and procedures pertaining to the administration of training activity. The procedures should address the processing, recording, monitoring, and reporting of all training activity. The procedures should be detailed enough that another individual could process activity in the absence of key personnel.
- ✓ The OMB Payroll division should maintain documentation for all of the earn codes they establish. This will help ensure and support that the amounts paid are appropriate.

LMPD's Corrective Action Plan

#1 Since assigned to LMPD, the Human Resources unit will reconcile the KLEFPF reports using the state report and PeopleSoft query effective with the November 2009 report.

#2 LMPD has contacted Metro IT to help devise an automated KLEFPF report out of PeopleSoft and combine with the state KLEFPF report to facilitate the reconciliation report. PeopleSoft programmers purported that they should be able to tackle this project at the end of February/beginning of March 2010.

#3 LMPD HR will forward a signed copy of the discrepancies audit report to OMB when provided.

#4 Discrepancies including incorrect amounts, dates, names, and social security will be documented and forwarded to the State KLEC office along with supporting documentation (Form F's). Form F's are currently routinely sent to KLEC for the above aforementioned.

#5 Reconciliation of KLEFPF audits by LMPD Human Resource unit began with November 2009 as assigned by internal audits as a corrective action.

Office of Internal Audit
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