



Jerry E. Abramson
Mayor

Louisville Metro Council

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Office of Internal Audit

Louisville Metro Government

Budget Revision Process

Audit Report

Office of Internal Audit

Louisville Metro Government

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May 2010



Louisville Metro Government

Budget Revision Process

Table of Contents

Transmittal Letter 2

 Introduction..... 2

 Scope..... 3

 Opinion 3

 Corrective Action Plan..... 3

 Internal Control Rating 4

 Background..... 5

 Summary of Audit Results..... 5

Observations and Recommendations..... 7

 Office of Management and Budget’s Response 8



OFFICE OF INTERNAL AUDIT
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Transmittal Letter

May 27, 2010

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

Subject: Audit of Louisville Metro Government's Budget Revision Process

Introduction

An audit of Louisville Metro Government's budget revision process was performed. The primary focus of the review was the operational and fiscal administration of the activity, which included how activity is processed, recorded, and monitored. The operating policies, procedures and records for the budget revision process were reviewed. The objective of the review was to obtain assurance that the risks are adequately mitigated through internal controls in the process.

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 Louisville Metro Government's budget revision activity were reviewed through interviews with key personnel. This primarily consisted of Office of Management and Budget (OMB) personnel due to their responsibility in the budget revision process. The focus of the review was the operational and fiscal administration of the activity, which included how activity is processed, recorded, and monitored.

The audit period covered budget revisions processed from July 1, 2008 through December 31, 2009 (all of Fiscal Year 2009 through the second quarter of Fiscal Year 2010). Documentation reviewed included budget revision documents, financial system reports and supporting documentation (e.g., ordinances, agency receipt memos).

The review included assessing whether budget revision 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 Louisville Metro Government's budget revision process 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.

Corrective Action Plan

A formal action plan was not necessary since no recommendations were made. The Office of Management and Budget was provided an opportunity to respond due to their responsibility in the budget revision process. The response is included in this report.

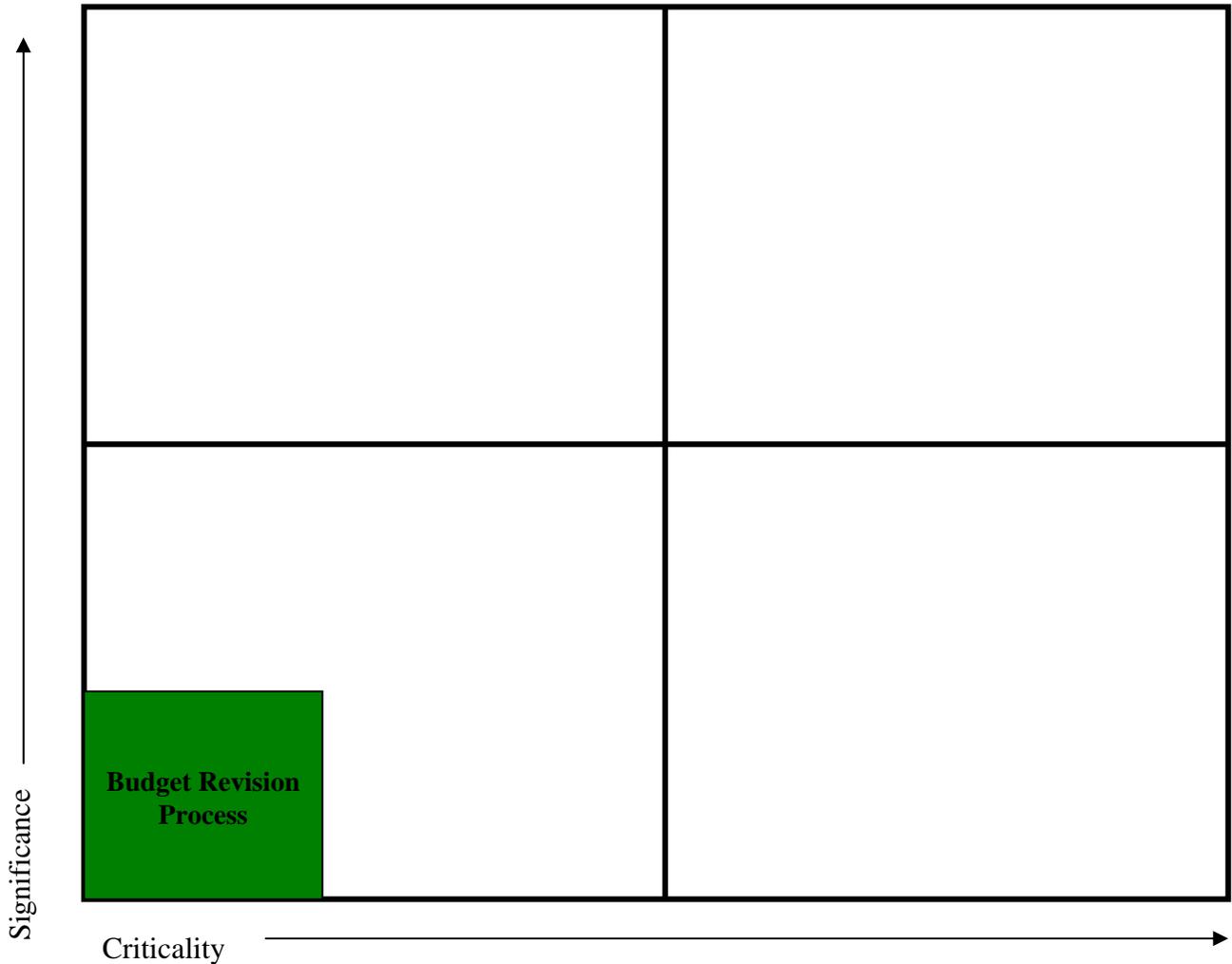
Sincerely,



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.
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

Budget revisions are changes made to the annual operating and capital budgets subsequent to Louisville Metro Council's approval. Budget revisions can be initiated and processed by the requesting department or by the Budget Division of the Office of Management and Budget. The Budget Division ultimately gives the final approval before the revision is posted in the financial system. The budget revisions can either increase or decrease funds budgeted in a particular budget line item, move surplus funds from one budget line item to another budget line item, or move budgeted funds from one division or unit activity to another division or unit activity. Also, budget revisions may be processed to increase funds authorized for grants, increase/decrease the amount of capital funding for a capital project, and move surplus capital funding from one capital project to another capital project.

In fiscal year 2009, there were approximately \$49.5 million in budget revisions posted to the financial system. Through the second quarter of fiscal year 2010, there were approximately \$14 million in budget revisions posted to the financial system.

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 Louisville Metro Government's budget revision 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 Office of Management and Budget on April 27, 2010. The draft report was issued to OMB due to their responsibility in the budget revision process. It was determined that a formal exit conference was not necessary. A formal action plan was not necessary since there were no recommendations made.

OMB was provided an opportunity to respond. OMB's response was received on May 26, 2010 and 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.”*

The Office of Management and Budget's response was provided within this required timeframe.

Observations and Recommendations

Scope

A review of Louisville Metro Government's budget revision process was performed. The primary focus of the review was the operational and fiscal administration of the activity, which included how activity is processed, recorded, and monitored. The operating policies, procedures and records for the budget revision process were reviewed. The objective of the review was to obtain assurance that the risks are adequately mitigated through internal controls in the process.

A thorough understanding of the budget revision process was obtained in order to evaluate the internal control structure. This was achieved through interviews of Office of Management and Budget personnel and the examination of supporting documentation. This included obtaining an understanding of the policies and procedures for processing, recording, monitoring, reconciling, and reporting of activity. Documentation reviewed included budget revision documentation, financial system reports, and supporting documentation (e.g., ordinances, agency receipt memos).

A judgmental sample of budget revisions and their supporting documentation was examined. The review period was Fiscal Year 2009 through the second quarter of Fiscal Year 2010. The audit 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 risks associated with the budget revision process. Specific results are as follows.

- **Budget Revision Process.** There were no observations regarding the accuracy of processing, recording, monitoring, reconciling or reporting of budget revision activity.

Recommendations

No recommendations are necessary at this time.

Office of Management and Budget's Response

While the audit report on budget revisions found that there were no items noted related to the “accuracy of processing, recording, monitoring, reconciling or reporting budget revision activity” and the overall internal control structure was identified as satisfactory, OMB would like to take the opportunity to acknowledge the diligence and dedication of its professional staff.

OMB is committed to its core mission of maintaining the fiscal integrity of the government and providing high quality customer service. This audit affirms both aspects of OMB's mission. While there is always room for improvement in any realm, it is a pleasure to recognize OMB employees performing their duties well.

Office of Internal Audit
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