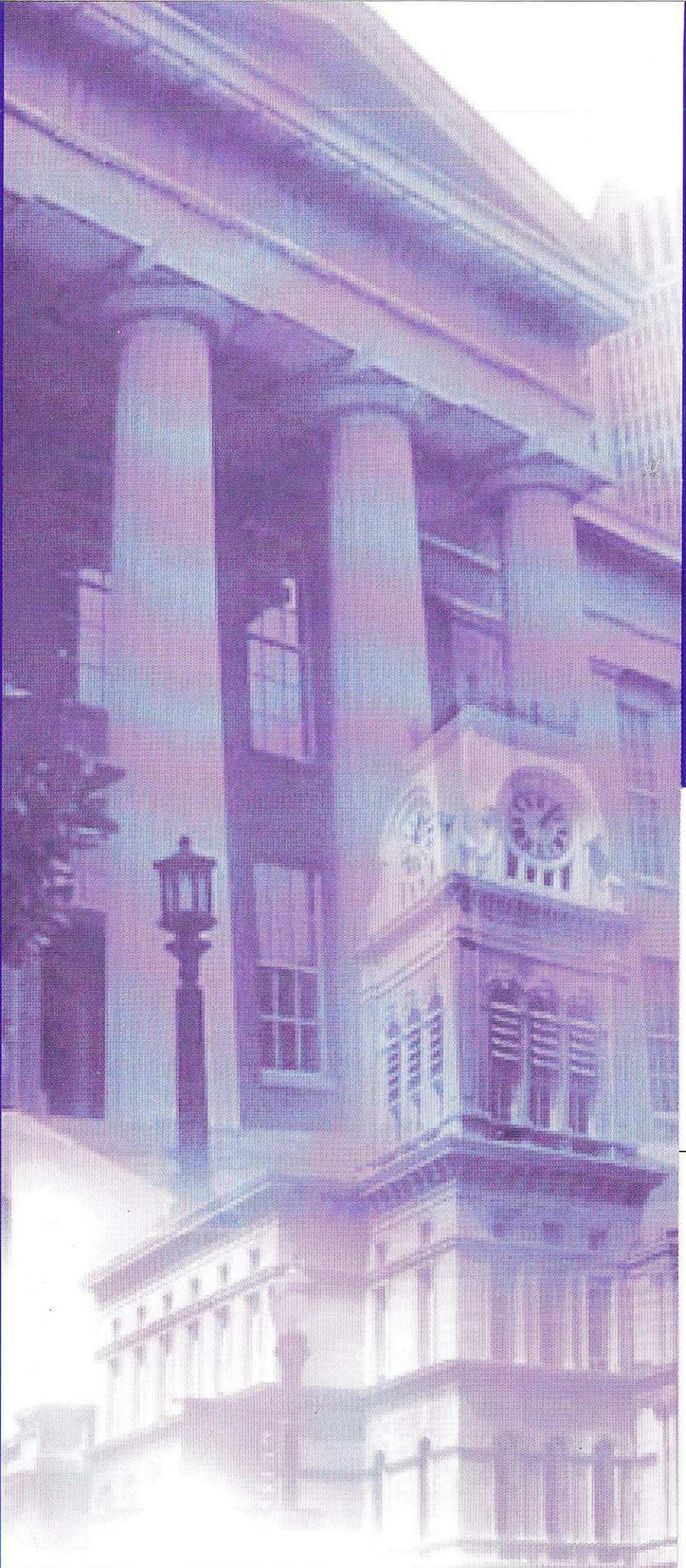




Greg Fischer
Mayor
Louisville Metro Council

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

Office of Management and Budget

Financial Operations
November 2011

Report

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Office of Internal Audit



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Financial Operations
November 2011

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Executive Summary

PROJECT TITLE	
Office of Management and Budget-Financial Operations	
OBJECTIVE AND SCOPE	
<p>The objective was to obtain assurance that operational risks are adequately mitigated through the internal control structure. The primary focus of the review was the fiscal and operational administration of the Office of Management and Budget's activity regarding procurement and payroll. This included how activity is processed, recorded, and monitored. This was a scheduled audit.</p> <p>Testing included activity occurring during fiscal year 2010 (July 1, 2009 to June 30, 2010) and the first half of fiscal year 2011 (July 1, 2010 through December 31, 2010). The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.</p>	
INTERNAL CONTROL ASSESSMENT	SECTION
Satisfactory	Procurement
Satisfactory	Payroll
RESULTS	
<p>Procurement. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Examples include the following.</p> <ul style="list-style-type: none"> • There is a lack of documented policies and procedures for the administration of their internal procurement activity. • Invoices were not paid within the thirty-day limit as required by Kentucky Revised Statutes. • Payment documents did not have the appropriate signature authorizing payment. <p>Payroll. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Examples include the following.</p> <ul style="list-style-type: none"> • There were timecard reports that were not signed by employee or the supervisor. 	



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM L. QUICK, CIA, CFE
INTERIM DIRECTOR - CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

November 22, 2011

The Honorable Greg Fischer
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of Office of Management and Budget's Financial Operations

Introduction

An audit of Louisville Metro's Office of Management and Budget's financial operations was performed. The primary focus of the review was the operational and fiscal administration of the activity. This included how activity is processed, recorded, and monitored. 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 procedures for the administration of Office of Management and Budget's payroll and procurement activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity. Tests of sample data were performed on activity from fiscal year 2010 (July 2009 through June 2010) and the first half of fiscal year 2011 (July 2010 through December 2010). This included how activity is processed, recorded, monitored and reported. The details of the scope and methodology of the review areas 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.

It is important to note the audit period was prior to the implementation of the business office centralization.

Opinion

It is our opinion that the internal control structure for the administration of the Office of Management and Budget's procurement and payroll activity is satisfactory. The internal control rating for each area reviewed is on page 6 of this report. These ratings quantify our opinion on internal controls, and identify areas requiring corrective action. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted.

Procurement

- The Office of Management and Budget does not have documented policies and procedures for the administration of their internal procurement activity.
- Two of the twenty - five supplier payments reviewed was not processed within 30 working days as required by statutory law.
- Two of the twenty-five payment documents did not have the appropriate signature authorizing payment.

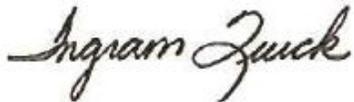
Payroll

- There were timecard reports that were not signed by the employee or the supervisor.

Corrective Action Plan

Representatives from the Office of Management and Budget have reviewed the results and are committed to addressing the issues noted. Office of Management and Budget's responses / corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with the Office of Management and Budget to ensure the actions taken are effective to address the issues noted.

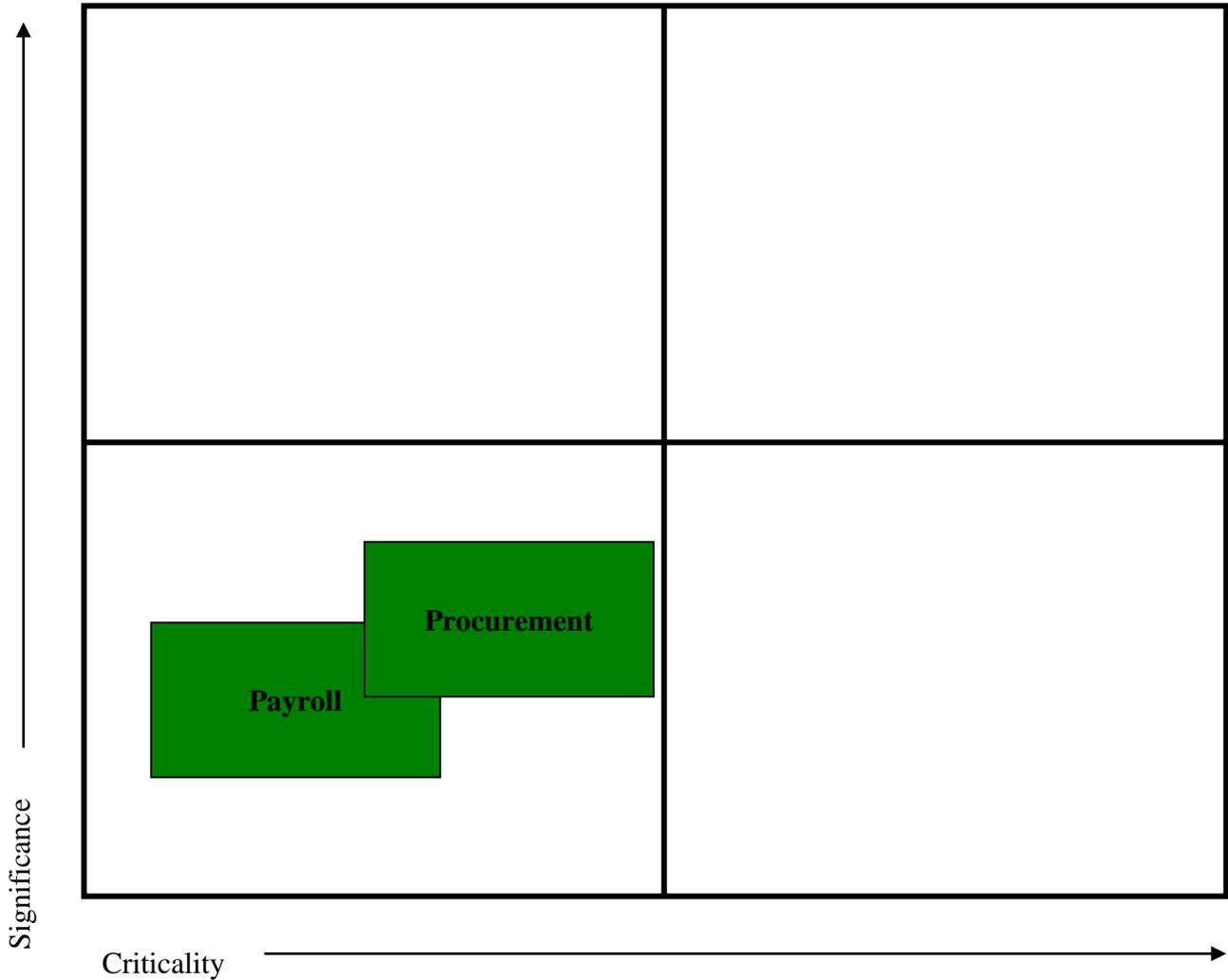
Sincerely,



Ingram L. Quick, CIA, CFE
Interim Director and Chief Audit Executive

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

Internal Control Rating



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

The Office of Management and Budget is responsible for overseeing revenue, budget, policy and the daily financial operations for Louisville Metro Government. This includes creating and monitoring Louisville Metro Government's fiscal plan, maintaining financial transactions, preparing accurate financial statements and reports for the government, managing and monitoring fiscal requirements of grants, providing fair, open and competitive procurement services, minimizing the government's exposure to accidental loss of assets and overseeing investment and cash disbursement operations.

For fiscal year 2010 and first half of fiscal year 2011, the Office of Management and Budget's payroll related expenditures were approximately \$9,199,000 and supplier payments were approximately \$4,106,000. The supplier amount excludes payments for out of town travel and capital projects. Office of Management and Budget had approximately 115 positions during fiscal year 2010.

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 previous review of the Office of Management and Budget financial operations 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 Office of Management and Budget on October 18, 2011. It was determined that a formal exit conference was not necessary.

The views of Office of Management and Budget officials were received on November 17, 2011 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.”*

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

Observations and Recommendations

1) Procurement

Scope

Office of Management and Budget's procedures for administering procurement activity 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 objective was to obtain assurance that the risks are adequately mitigated through the internal control structure.

Tests of sample data were performed on transactions from fiscal year 2010 (July 2009 through June 2010) and the first half of fiscal year 2011 (July 2010 through December 2010). Procurement data was obtained from Louisville Metro's financial system. A sample of 25 transactions was judgmentally selected for review. Transactions related to out of town travel and capital projects were excluded from this review.

In addition, all suppliers receiving payments of more than \$10,000 from the Office of Management and Budget during fiscal year 2010 were identified. Activity for these suppliers was reviewed to ensure compliance with contractual requirements in the Louisville Metro procurement policies. The examination would not reveal all issues because it was based on a selective review of data.

Observations

The internal control structure is satisfactory and appears to be effective in mitigating the risks associated with the payroll activity. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Specific results are as follows.

- **Policies and Procedures.** The Office of Management and Budget does not have documented policies and procedures for the administration of their internal procurement activity. Although the Office of Management and Budget follows guidelines established by Louisville Metro Government's Purchasing policy, there are no documented policies and procedures to inform key personnel of their job duties, forms to use and policies followed in the processing of their internal procurement activity. The absence of formally documented policies and procedures increases the risk of inconsistency in facilitating procurement activity.
- **Payment Timeliness.** Kentucky Revised Statutes requires that Louisville Metro Government pay suppliers within thirty working days of the receipt of the invoice.
 - Of the twenty - five invoices reviewed, two invoices were not paid within the thirty day limit. The payment for the two invoices ranged from two to five days after the limit.
- **Payment Documents.** Louisville Metro Government Accounts Payable Division of the Office of Management and Budget maintains a list of employees who have the authority to sign the Payment Document. The signature signifies approval of the payment.

- There was one payment document that did not have a signature authorizing payment.
- There was one payment document signed by an employee who was not listed on the Accounts Payable Document Signature Authorization Form.

Recommendations

Appropriate Metro personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ A written internal policies and procedures manual should be developed. This manual should include sufficient detail for each job duty performed, copies of forms used and the policies followed in the processing of procurement activity. This internal policy and procedures manual should be distributed to all applicable personnel. In addition, training of key personnel will help ensure consistent adherence to the requirements. The internal policy and procedures should reflect the most current information and be updated periodically.
- ✓ Care should be taken to ensure invoices are processed in a timely manner in compliance with State law. Any situations in which an invoice will not be paid within thirty working days, such as disputes with the supplier, should be properly documented.
- ✓ As part of the payment approval process, appropriate personnel should thoroughly review payment documents to ensure accuracy and appropriateness. This should include ensuring that all documents are signed by appropriate personnel.

Office of Management and Budget Corrective Action Plan

- OMB follows Metro Government's Procurement Policy that regulates all purchases made by Metro. All purchases made by OMB were approved by OMB management prior to the procurement of the goods or services. Subsequent to the implementation of the centralized business function, OMB is in the process of drafting internal procedures to formally document the standard operating procedures that are followed for all OMB purchases.
- Metro's policy is to pay all invoices within 30 business days of the invoice date. It is OMB's intent to comply with that standard. OMB has developed an Invoice Exception Form that will be used to document delays in processing of invoices that may be non-compliant with the statutory requirement.
- OMB has updated the Accounts Payable Signature Authorization form to reflect the current authorized signors. OMB is now using IPM to process all accounts payable documents. Invoice approvals are documented electronically and only authorized individuals have access to approve invoices for payment.

2) Payroll

Scope

The Office of Management and Budget's procedures for administering payroll were reviewed through interviews with key personnel. The primary focus of the review was the operational and fiscal administration of the activity. Examinations were performed to determine whether activity is complete, accurate and in compliance with Metro Payroll and Timekeeping Policies. Documentation reviewed included payroll documents, official timecard records, Louisville Metro personnel policies and PeopleSoft records.

The audit review period included fiscal year 2010 (July 2009 through June 2010) and the first half of fiscal year 2011 (July 2010 through December 2010). A sample of four pay periods was judgmentally selected for review. Personnel were selected from each of the pay periods to review the validity and accuracy of payroll.

Additional audit procedures included reviewing employee addresses and direct deposit bank account information. Also, activity for regular part-time employees was examined to verify proper contributions were paid to the retirement system when applicable. The review would not reveal all issues because it was based on a selective review of data.

Observations

The internal control structure is satisfactory and appears to be effective in mitigating the risks associated with the payroll activity. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Specific results are as follows.

- **Timecard Report Signatures.** Louisville Metro policy requires that timecard reports be signed by both the employee and their supervisor. The employee's signature indicates the time is reported accurately and the supervisor's signature indicates the authorization to process the employee's payroll. The timecard report is the official record of the payroll activity. Issues were noted with the timecard report signatures.
 - There were two individual timecard reports that were not signed by the employee.
 - There were five timecard reports that were not signed by the supervisor.

Recommendations

Appropriate Metro personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ Timecard reports should be signed by both the employee and the supervisor. Once approved, the timecard report should be returned to the Business Office in a timely manner (e.g., within one week). Supervisors should be accountable for reviewing and signing the timecard reports and ensuring they are returned to the Business Office in a timely manner.

Office of Management and Budget Corrective Action Plan

- OMB management will continue to review all time reported by employees. OMB has reminded all managers and staff to sign on the appropriate line to indicate their review of their individual time and the overall review of staff time.

Office of Internal Audit

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