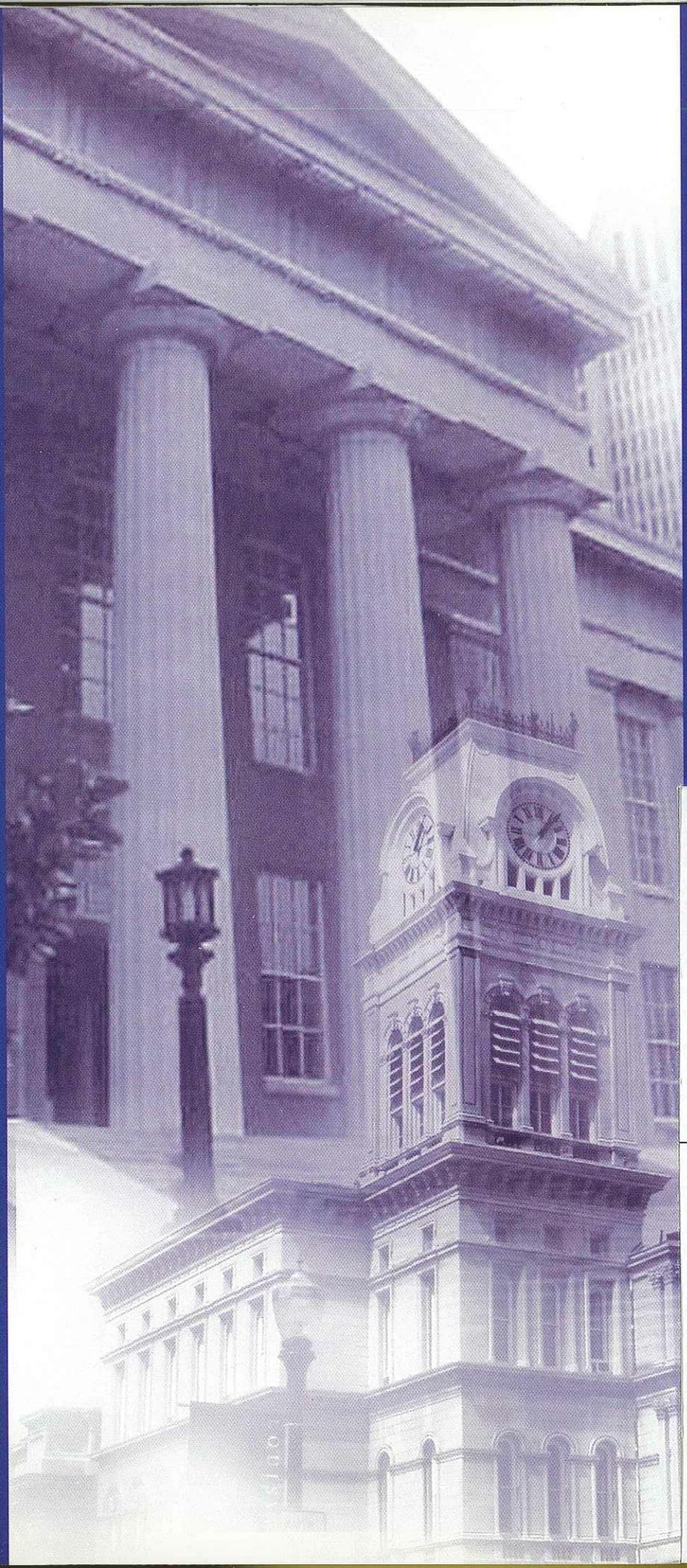




Jerry E. Abramson  
Mayor  
Louisville Metro Council

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

2011 Audit Follow-up

# Report

## Louisville Metro Government

### Audit Follow-up

December 2010



Office of Internal Audit

Louisville Metro Government

---

2011 Audit Follow-up

## Table of Contents

<b>Transmittal Letter .....</b>	<b>2</b>
Scope and Purpose .....	2
Methodology .....	3
Report Format .....	3
Conclusion .....	4
 <b>Audit Follow-up Report.....</b>	 <b>5</b>
 <b>Index of Departments .....</b>	 <b>15</b>



OFFICE OF INTERNAL AUDIT  
LOUISVILLE, KENTUCKY

JERRY E. ABRAMSON  
MAYOR

MICHAEL S. NORMAN, CIA, CFE, CGAP  
CHIEF AUDIT EXECUTIVE

THOMAS L. OWEN  
PRESIDENT METRO COUNCIL

### **Transmittal Letter**

December 20, 2010

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

#### **Subject: 2011 Audit Follow-up Report**

#### **Scope and Purpose**

Enclosed is the 2011 Audit Follow-up report. It encompasses audit projects performed from July 2009 to June 2010 that had issues / areas rated as inadequate or needs improvement. It also includes unresolved issues from the 2010 Audit Follow-up report. Some of the projects listed are consultations in which a formal report was not issued. A total of 35 projects, representing 64 issues, are included in this report. Of the 64 issues, 39 were carried forward from the 2010 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 included in Government Auditing Standards and in the International Standards for the Professional Practice of Internal Auditing.

The 2011 audit follow-up was performed earlier than in past years. This was necessary in order for the report to be completed prior to the transition to the new Administration in January 2011.

## 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:

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

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

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 – Division 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 15.

<b>Category</b>	<b>Page #</b>
<b>Corrective action implemented and self-assessment of effectiveness completed</b>	<b>6</b>
<b>Some corrective action implemented but not completed or self-assessment of effectiveness not performed</b>	<b>12</b>
<b>Corrective action evaluated and no further action is intended; Department assumes risks associated with issue</b>	<b>16</b>
<b>Corrective action not evaluated, planned, or implemented</b>	<b>N/A</b>
<b>Department did not respond to request for corrective action information</b>	<b>N/A</b>

**Corrective action implemented and self-assessment of effectiveness completed**

<b>Department – Division</b>	<b>Area</b>	<b>Issues</b>	<b>Report (Consultation) Date</b>
Codes and Regulations – Inspections, Permits and Licenses	ABC Licenses and Permits Revenue – ABC Fine Activity Processing	No backup personnel designated to cover in the absence of staff responsible for administering fine activity.	11/14/2008
Economic Development	Metco Loan Program - Loan System	Need new loan management software 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	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 (system weakness). Loan payments not deposited timely. No desktop policies for loan payment processing.	8/11/2008
Enterprise	Ethics Program - Communication and Training	Louisville Metro Government does not offer or require training for ethical behavior. Though some employees are covered by Metro's 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
Enterprise	Ethics Program - Standards and Procedures	There is not a comprehensive Ethics Program for all Louisville Metro Government employees. Program consists of various policies, both enterprise-wide and departmental specific. (Policies not necessarily focused on criminal conduct.)	8/25/2008
Enterprise	Miscellaneous Building Repairs and Minor Renovations	Finance personnel initiated, authorized, and processed activity in the capital project though it was a Public Works and Assets' account. Finance created a purchase order for over \$10,000 without going through Purchasing. Procurement made through a State contract did not document manufacturer's price list at time of purchase, also, another transaction invoice did not note enough detail.	9/22/2009
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 Metro overpaid pension costs.	4/14/2009

**Corrective action implemented and self-assessment of effectiveness completed**

<b>Department – Division</b>	<b>Area</b>	<b>Issues</b>	<b>Report (Consultation) Date</b>
Enterprise	Privileges Receipts - LGE and TARC Fees	The franchise agreement between Louisville Metro and LG&E ended October 15, 2003. LG&E is still making payments to Louisville Metro even though the agreement has expired. Though the Office of Management and Budget performs a cursory review of the annual franchise fee, the review is not documented to support that the amount is appropriate based on agreement terms. Louisville Metro Government receives monthly payments from TARC for advertising revenue TARC receives from a contracted vendor. The basis for TARC providing the fees could not be determined. It could not be determined whether TARC has an obligation or is required to pay the advertising revenues to Louisville Metro. It does not appear that a documented contract or agreement exists between Louisville Metro Government and TARC for the revenue payments.	12/28/2009
Enterprise	Refreshment Expenditures - Departmental Policies	Louisville Metro Government does not have a policy for refreshment expenditures. As a result, inconsistencies among Metro departments as to what is appropriate refreshment expenditure. Departments should review their own policies and procedures to ensure risks are mitigated. If any doubt, legal guidance should be obtained.	12/28/2007
Enterprise	Refreshment Expenditures - Documentation	Louisville Metro Government does not have a policy for refreshment expenditures. As a result, inconsistencies among Metro departments as to what is appropriate refreshment expenditure and how to document activity. Departments should review their own policies and procedures to ensure risks are mitigated.	12/28/2007
Enterprise	Refreshment Expenditures - Enterprise Guidance	Louisville Metro Government does not have public purpose defined in its policies and procedures. As a result, inconsistencies among Metro departments as to what is appropriate refreshment expenditure. Metro Finance is most logical department to coordinate effort to develop guidance.	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
Human Resources	Fraud Policy	Fraud policy for Metro Government.	3/24/2006

**Corrective action implemented and self-assessment of effectiveness completed**

<b>Department – Division</b>	<b>Area</b>	<b>Issues</b>	<b>Report (Consultation) Date</b>
Office of Management and Budget – Finance	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; Inconsistent project documentation; Usage for adding work to project which may bypass procurement process.	12/18/2006
Police	Court Pay Process - Reconciliation	Inadequate reconciliation of court pay activity. This includes the off-duty status indications by employees, brief court appearances, and monthly reports.	3/25/2008
Police	I-Leads Records Management System	The user access administration process is informal, increasing the risk that unauthorized users can gain access to system accounts and data.	6/30/2010
Police	I-Leads Records Management System	A number of vulnerabilities on the Oracle database server were noted. These expose the database to breach, compromising the security of the database and its data.	6/30/2010
Police	Incentive Pay	A reconciliation of the monthly reimbursements from Kentucky Law Enforcement Council (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 KLEC reimbursements and corresponding payroll activity.	2/17/2010
Public Protection – Animal Services	Animal Adoption Agency	Trial agreement between Metro Animal Services and the Animal Adoption Agency was not a valid contract; Inventory was cumbersome in that animals were not tagged or kept in separate cages within rooms at Animal Adoption Agency, there were also inventory discrepancies and several non- Metro Animal Services' animals at Animal Adoption Agency; Issues with revenue data in the system where outcome / adoption reports may produce different results depending on when prepared.	9/1/2009
Public Protection – Animal Services	Animal Adoption Agency	Metro Animal Services' employees operated the SPOT vehicle without the appropriate Class A Commercial Driver's License.	9/1/2009

**Corrective action implemented and self-assessment of effectiveness completed**

<b>Department – Division</b>	<b>Area</b>	<b>Issues</b>	<b>Report (Consultation) Date</b>
Public Protection – Animal Services	Professional Services Contracts	Investigation of allegation of misconduct in the awarding of professional services contracts for veterinarian services. Assistance was requested by Human Resources. Investigation result was the allegation could not be substantiated. Also investigated allegation of improper billing activity by contract veterinarians. This allegation could not be substantiated. There was an overpayment of \$1,210 detected for 1 veterinarian - the matter was referred to Finance for further action.	12/10/2009
Public Protection - Corrections	Inmate Account - General Administration	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 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	Chevin FleetWave System	Process over FleetWave application is informal; 26 users not logged on the system within last 180 days.	3/30/2010
Public Works and Assets – Fleet Services	Chevin FleetWave System	Application password configurations do not meet the password requirements set forth by Metro Technology Services in the Information System Policies Manual.	3/30/2010
Public Works and Assets – Fleet Services	Chevin FleetWave System	Ability to recover backup data has not been tested. In addition, procedures to ensure backup jobs are successfully completed are in the process of being formalized.	3/30/2010
Public Works and Assets – Fleet Services	Chevin FleetWave System	Ownership of the Chevin suite of applications is not formally defined by Louisville Metro Government; however, administrative responsibilities are shared by Public Works and Assets and Metro Technology Services.	3/30/2010

**Corrective action implemented and self-assessment of effectiveness completed**

<b>Department – Division</b>	<b>Area</b>	<b>Issues</b>	<b>Report (Consultation) Date</b>
Public Works and Assets – Fleet Services	Parts Room Operations - Computer Systems	Wrong account used / inability to verify account accuracy.	8/5/2008
Public Works and Assets – Operations and Maintenance	Vehicle Impoundment Division Revenue – Efficiency and Effectiveness	Vehicle Impoundment Division activity is administered mainly using a manual process. While cash register systems are used, along with information managed using general MS-Office 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
Public Works and Assets – Solid Waste Management Services	Landfill / Sanitation Services and Containerized Waste	Solid Waste Management Services charges some organization for services and credits the payments to expenditure accounts rather revenue. Segregation of duties issue (one person responsible for billing, receipt, recording, deposit and reconciliation of activity).	10/19/2009
Public Works and Assets – Solid Waste Management Services	Landfill / Sanitation Services and Containerized Waste	Expenditures were not in compliance with contractual terms; Internal Containerized Waste Site List had several inconsistencies noted with it.	10/19/2009

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

<b>Department – Division</b>	<b>Area</b>	<b>Issues</b>	<b>Report (Consultation) Date</b>
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.	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 – Air Pollution Control	Revenue Management - Computer Systems	Multiple, old & antiquated systems; not complete in processing activity.	7/25/2005
Enterprise	Payroll Review - 2009 - Manual Leave Tracking	Leave balances are manually maintained by Fire personnel. This practice is inefficient and increases the risk for errors. There are no independent oversight controls for Fire leave pay.	4/19/2010
Enterprise	Privileges Receipts - Reconciliation of TARC Fees	Finance does not perform a reconciliation of TARC shelter fees to ensure amounts are appropriate.	12/28/2009
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)	Overpayments to Ramp Contractor. Criminal investigation did not result in prosecutable offenses. Case referred to County Attorney for civil action.	N/A
Information Technology	Perimeter Firewalls and Email Usage Controls - Disaster Recovery & Business Continuity	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

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

<b>Department – Division</b>	<b>Area</b>	<b>Issues</b>	<b>Report (Consultation) Date</b>
Information Technology (MSD)	MIDAS (Hansen) - General Controls	Disaster recovery plan.	10/5/2004
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 – Subpoena Tracking	Subpoena tracking system.	3/25/2008
Police	I-Leads Records Management System	A formal disaster recovery plan has not been developed for Louisville Metro Government to address the recovery of its information technology systems in the event of a disaster.	6/30/2010
Police	Incentive Pay	There is not adequate technical support of the database used by Louisville Metro Police Department (LMPD) to track officers' training. LMPD does not have documented desktop policies and procedures to guide in the administration of training activity.	2/17/2010
Police	Records Management System	Data integrity issues with prior systems' data conversions into I-Leads. No system reports to provide a listing of property stored in Property Room. Property disposals have not been routinely performed.	10/21/2009
Public Protection – Animal Services	Revenue and Operations Administration - Fiscal Administration	Metro Animal Services is not following-up for animal licenses that may be unpaid. This does not provide proper follow-up for non-complying pet owners and likely results in lost revenue.	8/31/2007

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

<b>Department – Division</b>	<b>Area</b>	<b>Issues</b>	<b>Report (Consultation) Date</b>
Public Protection - Corrections	IMS - Oracle Database	The database auditing system has not been implemented.	5/17/2006
Public Protection - Corrections	Inmate Account - Booking Fee Activity	IMS doesn't reflect actual collections.	9/12/2005
Public Protection – Emergency Medical Services	Fleet Repair Charges	No documented agreement between EMS and Fire; No standard operating procedures at EMS; Lack of inventory management system at EMS; Fire does not use Chevin; Monthly billing process does not allow monitoring and is manually intensive.	2/12/2010
Public Protection – Emergency Medical Services	Fleet Repair Charges	Justification for labor and parts markup charges not documented.	2/12/2010
Public Works and Assets – Fleet Services	Parts Room Operations - Computer Systems	The NAPA Auto Parts' 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.	8/5/2008
Public Works and Assets – Operations and Maintenance	Vehicle Impoundment Division Revenue – Efficiency and Effectiveness	VID activity is administered mainly using a manual process.	8/11/2006
Public Works and Assets – Solid Waste Management Services	Landfill / Sanitation Services and Containerized Waste	No documented agreements for services provided to some organizations.	10/19/2009
Public Works and Assets – Streets and Roads	Inventory System	Lack of an inventory system to track materials used for specific projects.	6/24/2009

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

<b>Department – Division</b>	<b>Area</b>	<b>Issues</b>	<b>Report (Consultation) Date</b>
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 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 - 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
Public Protection – Emergency Medical Services	Fleet Repair Charges	Preventive Maintenance program not in agreement with manufacturer's recommendation.	2/12/2010

## Index of Departments

Codes and Regulations – Inspections, Permits and Licenses .....	6, 11
Economic Development.....	6
Economic Development – Air Pollution Control.....	11
Enterprise .....	6, 7, 11, 14
Housing and Family Services – Housing.....	11
Human Resources .....	7
Information Technology .....	11
Information Technology (MSD).....	11, 12
Office of Management and Budget – Finance .....	8
Office of Management and Budget - Purchasing.....	8
Parks and Recreation.....	12
Police.....	8, 12
Public Protection – Animal Services .....	8, 9, 12
Public Protection - Corrections.....	9, 13
Public Protection – EMA / MetroSafe .....	9
Public Protection – Emergency Medical Services .....	13, 14
Public Protection - Fire .....	9
Public Works and Assets – Fleet Services.....	9, 10, 13
Public Works and Assets – Operations and Maintenance .....	10, 13
Public Works and Assets – Solid Waste Management Services.....	10, 13
Public Works and Assets – Streets and Roads.....	13

**Office of Internal Audit**  
**Phone: 502.574.3291**  
**[www.louisvilleky.gov/InternalAudit/](http://www.louisvilleky.gov/InternalAudit/)**