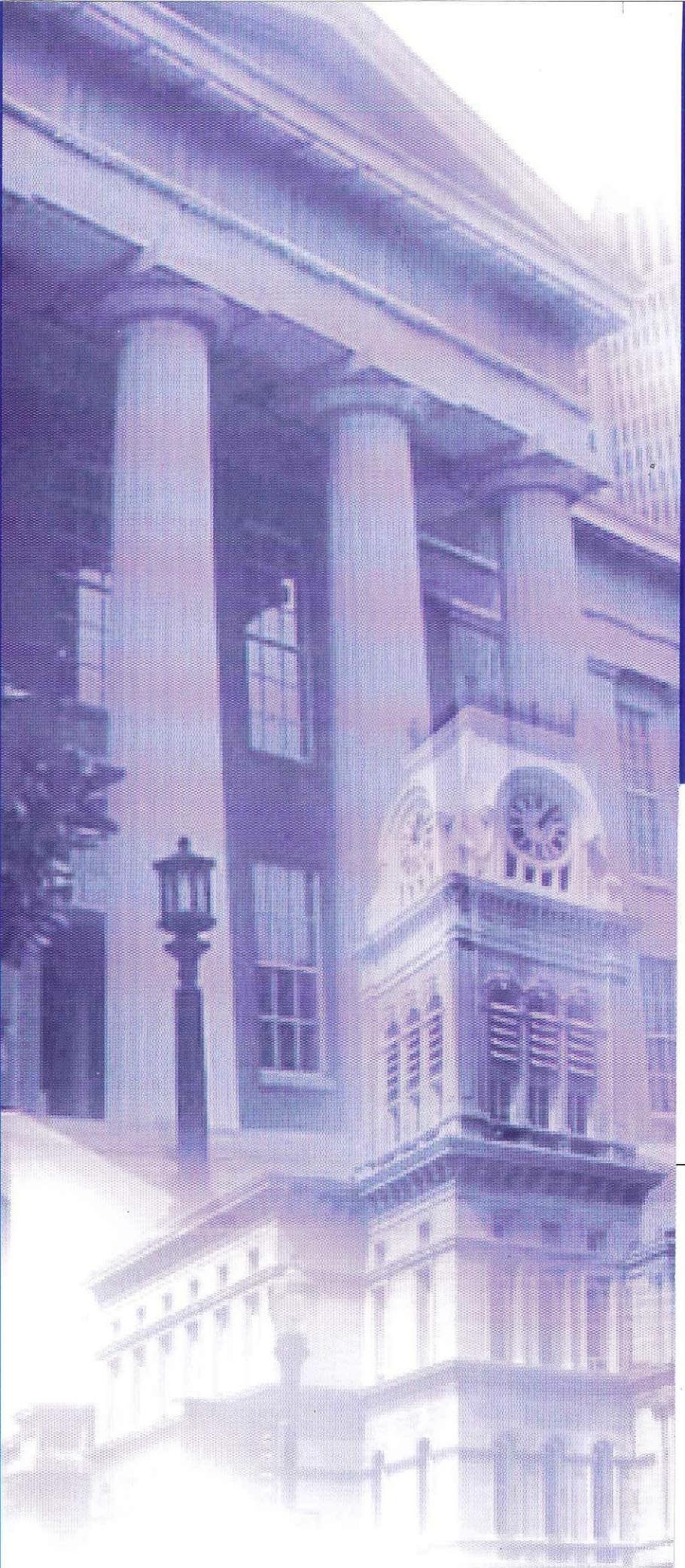




Greg Fischer
Mayor
Louisville Metro Council

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

Louisville Free Public Library

Capital Projects

Audit Report

Louisville Free Public Library

Capital Projects

June 2012



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Executive Summary

PROJECT TITLE	
Louisville Free Public Library-Capital Projects	
OBJECTIVE AND SCOPE	
<p>The objective was to obtain assurance that operational risks are adequately mitigated through the internal control structure. The primary focus was the assessment of expenditure compliance with applicable contracts and to ensure the intended use of funds were in accordance with the capital appropriation. This was a scheduled audit.</p> <p>This was a compliance review based on project expenditures during the life of the project. Review covered activity from project inception through September 30, 2011. 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
Needs Improvement	Capital Projects
RESULTS	
<p>Expenditure activity for the four projects reviewed was in compliance with the intended use of the appropriation. Opportunities exist for improving the internal control structure for the administration of Louisville Free Public Library capital projects. Examples of the issues include the following.</p> <ul style="list-style-type: none"> • There were cases where the capital project expenditure was not in compliance with the contractual terms. The vendor's invoice included goods / services that were not included in the contract's price sheet. • There was one case where the expenditure was not in compliance with the contractual terms due to the type of goods purchased. • There were issues noted in determining the capital project expenditures' compliance with the contractual terms due to the invoices' inadequate supporting documentation. 	



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

June 22, 2012

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

Subject: Audit of the Louisville Free Public Library's Capital Projects

Introduction

An audit of the Louisville Free Public Library's (Library) capital projects was performed. The objective was assessing compliance with the intended use of the appropriation and contractual terms with suppliers. The focus was expenditures for the life of the project. A total of four capital projects were selected for review.

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 expenditures for selected Library capital projects were reviewed. The objective was assessing compliance with the intended use of the appropriations and contractual terms with suppliers. The following four projects were included in the review. The total amount of capital funds appropriated for each is noted.

- Shawnee Library Expansion / Renovation, \$1,400,000
- Fairdale Library, \$2,200,000
- Main Library South Building Window Replacement, \$210,000
- Newburg Library, \$1,800,000

Detailed policies and procedures were not considered within the scope of the review, nor was the bid and award process for supplier contracts. The review period covered project inception through September 30, 2011.

An understanding of the capital projects reviewed was obtained through interviews of key personnel. This included obtaining an understanding of project objectives, goals and expenditure activity. Documentation reviewed included Louisville Metro Ordinances, capital budgets, financial system records, contracts, invoices and other supporting documentation.

A sample of expenditures from each of the four projects was reviewed. The activity was verified to the intended purpose of the appropriation and to the contractual terms for the supplier. In addition, a sample of items procured for the capital projects was verified through visual inspections. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The audit would not identify all issues because it was based on selective review of procedures and data.

Opinion

It is our opinion that the internal control structure for Library capital projects needs improvement. The internal control rating is on page 6 of this report. This rating quantifies the opinion regarding the internal controls. Specific compliance results include the following.

- **Appropriation.** Expenditure activity for the four projects reviewed was in compliance with the intended use of the appropriation. No recommendations were necessary.
- **Contractual.** Contractual compliance issues were noted with the expenditure activity for the four projects reviewed.
 - *Compliance Issues.* There were four cases in which the project expenditure was not in compliance with the contractual terms.

- *Documentation Issues.* There were four 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.

Corrective Action Plan

Representatives from the Library have reviewed the results and are committed to addressing the issues noted. Corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with the Library to ensure the actions taken are effective to address the issues noted.

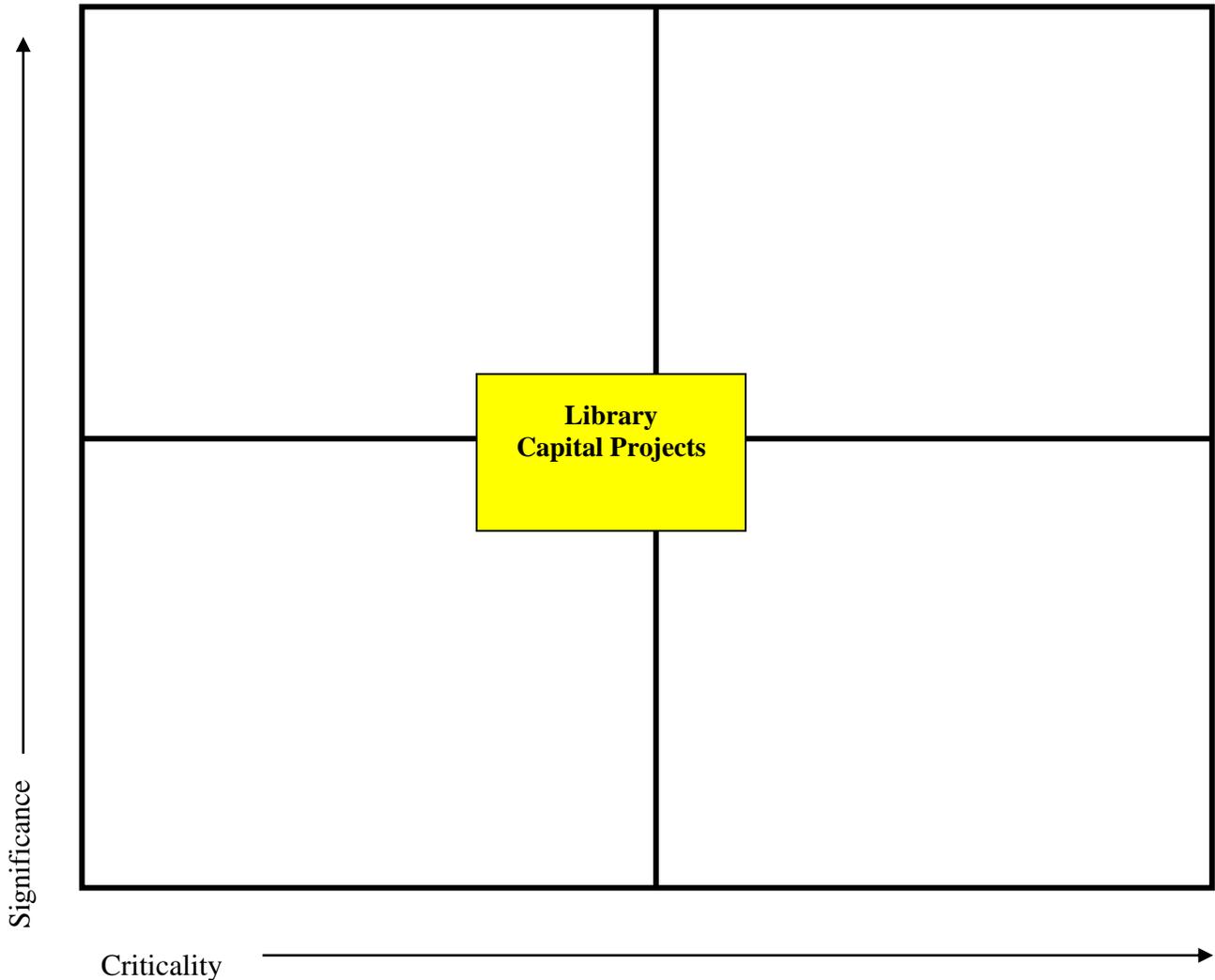
Sincerely,



Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Director of the Louisville Free Public Library
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

Capital projects are authorized by ordinances approved by Metro Council. The projects involve activities related to acquiring, constructing, maintaining, repairing, or improving the Louisville Free Public Library (Library) system.

Capital projects may be authorized as part of the annual budgetary process or appropriated at any time during the fiscal year. Each capital project has a specific description that summarizes the scope of work to be performed. Overall project scope cannot be significantly changed without the approval of Metro Council. Projects may also be funded through the issuance of bonds. Bond legislation details the intended use of funds and is approved by ordinance enacted by Metro Council.

As of September 30, 2011, the Library had a total of 38 active capital projects with expenditures totaling approximately \$27,878,900.

The administration of capital projects often involves resources from multiple Metro departments, such as the Department of Public Works and Assets' Project Management Division and the Purchasing Division of Office of Management and Budget. These other departments have critical roles such as evaluating bids, negotiating contracts, and managing projects.

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 any previous reviews of appropriations for Library capital projects.

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 Library and Public Works and Assets' Project Management Division on May 3, 2012. Due to the Library and Public Works and Assets' responsibility regarding the budgetary process, an exit conference was not held until June 7, 2012 at the Main Library (301 York Street). Attending were Craig Buthod and Melanie Lilly representing the Library; Matt Frazure representing Public Works & Assets and Ingram Quick and Catina Rivera representing Internal Audit. Final audit results were discussed.

The views of Library and Public Works and Assets' Project Management Division officials were received on June 21, 2012 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.”

The Office of Internal Audit agreed to extend the required timeframe to respond to the draft audit report. The Library and Public Works and Assets' Project Management Division responses were provided within this required timeframe.

Observations and Recommendations

Scope and Methodology

The expenditures for selected Louisville Free Public Library (Library) capital projects were reviewed. The objective was assessing compliance with the intended use of the appropriation and contractual terms with suppliers. The focus was expenditures for the life of the project. Detailed policies and procedures were not considered within the scope of the review, nor was the bid and award process for contracts.

The population of the Library capital projects was compiled from various sources. This included reviews of annual capital budget documents and Metro's financial system. The review period covered project inception through September 30, 2011.

Four capital projects were selected for review. The project name, and total amount of expenditures during the review period, is as follows.

- Shawnee Library Expansion / Renovation, \$1,183,741
- Fairdale Library, \$617,705
- Main Library South Building Window Replacement, \$177,735
- Newburg Library, \$1,800,000

The total expenditures for these projects were \$3,779,181, or 14% of the total capital project expenditures for the audit period.

An understanding of the capital projects reviewed was obtained through interviews of key personnel. This included obtaining an understanding of capital project objectives, goals and expenditure activity. Documentation reviewed included Louisville Metro Ordinances, capital budgets, financial system records, contracts, invoices and other supporting documentation.

A sample of expenditures from each of the four projects was reviewed. The activity was verified to the contractual terms for the supplier, as well as the intended purpose of the appropriation. In addition, a sample of items procured for the capital projects was judgmentally selected and physically verified through visual inspections. The review would not reveal all issues because it was based on selective review of data.

Observations

Some issues were noted with the administration of the Library capital projects. As a result, the effectiveness of the internal control structure is impaired and needs improvement. Results, along with opportunities noted to strengthen the controls, are as follows.

- #1 – Shawnee Library Expansion / Renovation
- #2 – Fairdale Library
- #3 – Main Library South Building Window Replacement
- #4 – Newburg Library

Details of these begin on the following page.

#1 – Shawnee Library Expansion / Renovation

Project Summary

This project was incorporated in an issue of appropriations of the Capital Cumulative Reserve Fund-Community Development Block Grant (CCRF-CDBG) funds. The Shawnee Library Expansion / Renovation project provided funding for the expansion and renovation of the Shawnee Library. The original 7,000 square foot building was renovated and restored and an additional 3,000 square feet was constructed on the rear of the building.

Authorizing Legislation

Louisville Metro Ordinance #118, Series 2010

Authorized Appropriation

\$1,400,000

Observations

Some issues were noted with the administration of the Shawnee Library Expansion / Renovation capital project. Specifics include the following.

- **Appropriation.** No issues were noted. The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** There were issues noted in determining the capital project expenditures' compliance with the contractual terms.
 - There were three cases where the capital project expenditure was not in compliance with the contractual terms. The vendor's invoice included goods / services that were not included in the contract's price sheet. The contract price sheet listed prices and dimensions for custom work stations. However, the prices and dimensions did not agree with the prices and dimensions on the proposal attached to the expenditure documentation. The total amount of expenditures associated with these issues was approximately \$25,047.
 - There was one case where the expenditure was not in compliance with the contractual terms due to the type of goods purchased. The invoice stated shelving and other related items were purchased from this vendor while the contract is for the purchase of books, CDs and DVDs only. The total amount of expenditures associated with these issues was approximately \$25,161.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed.



Shawnee Library Addition



Shawnee Custom Built Workstations

Recommendations

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

- ✓ Any negotiations agreed upon by parties subsequent to the bid award should be thoroughly documented and provided to the Purchasing Division of the Office of Management and Budget. Purchasing serves as the custodian for Louisville Metro contracts and therefore their files should contain adequate support documentation to record the purpose and authorization of all purchase orders.
- ✓ Appropriate personnel should review all supporting documentation to ensure the project expenditure is in compliance with contractual terms prior to the approval of payment. The documentation should be explicit as to the services / work performed or goods provided. Sufficient documentation should be provided to allow a reasonable person to independently verify the expenditure agrees to the contractual terms. This should be able to be accomplished solely by reviewing the supporting documents; it should not require additional information from the department. If the invoice and supporting documentation do not clearly provide this level of detail, additional explanation should be provided.

Library Corrective Action Plan

- Due to the nature of custom carpentry, this contract was bid with a specified example product for price comparison of the bids. It was not intended to be a contract limited to one specific sized workstation. This contract is in the process of being re-bid to address the needs for custom carpentry for the variety of custom needs in a large project.
- The Library corrected the description of goods for purchase in this contract by issuing a new RFP on November 23, 2011 and awarding a new contract on January 13, 2012.

#2 – Fairdale Library

Project Summary

This project was incorporated in an issue of appropriations of Capital Cumulative Reserve Funds and a 2009 Capital Bond. The Fairdale Library capital project funded the construction of a new branch library in Fairdale. Additional funds were provided for furniture, fixtures and equipment.

Authorizing Legislation

Louisville Metro Ordinance #118, Series 2010

Louisville Metro Ordinance #141, Series 2011

Authorized Appropriation

\$2,200,000

Observations

Some issues were noted with the administration of the Fairdale Library capital project. Specifics include the following.

- **Appropriation.** No issues were noted. The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** There were issues noted in determining the capital project expenditures' compliance with the contractual terms due to the invoices inadequate supporting documentation. The lack of adequate support documentation disables the verification of compliance to contractual terms and price agreement.
 - In one case an invoice only lists the total amount for the demolition of a building located on the construction site of the new library. The price list in the supplier's contract states that demolitions will be paid per square foot. There was no square footage noted on the invoice and therefore compliance to contractual terms and price could not be verified. The total amount of expenditures associated with these issues was approximately \$6,732.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following is an image of the item reviewed.



Fairdale Branch Library



Fairdale Mechanical Room

Recommendations

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

- ✓ Appropriate personnel should carefully review invoices for accuracy, appropriateness, and agreement to contractual terms and price agreements prior to the approval of payment.

Library Corrective Action Plan

- Library and Public Works & Assets personnel responsible for these functions are now complying with this recommendation.

#3 – Main Library South Building Window Replacement

Project Summary

This project was incorporated in an issue of appropriations of Capital Cumulative Reserve Funds and a 2009 Capital Bond. The project provides funding for the replacement of all windows in the South Building of the Main Library. The South Building is on The Landmark Commission's list. The window replacements were approved by the commission.

Authorizing Legislation

Louisville Metro Ordinance #112, Series 2006

Authorized Appropriation

\$210,000

Observations

Some issues were noted with the administration of the Main Library South Building Window Replacement capital project. Specifics include the following.

- **Appropriation.** No issues were noted. The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** There were issues noted in determining the capital project expenditures' compliance with the contractual terms due to the invoices inadequate supporting documentation. The lack of adequate support documentation disables the verification of compliance to contractual terms and price agreement.
 - In two cases it could not be determined if the expenditure was in compliance with contractual terms due to the lack of detail on the invoice. The invoice only listed a lump sum amount for labor and materials; however, the contract's price list includes an hourly rate. The documentation did not include the number of hours or an hourly rate, so the amount charged could not be verified. The total amount of expenditures associated with these issues was approximately \$3,675.

Visual Inspection. The items selected for inspection were located and no issues were noted. The following is an image of the item reviewed.



Window Replacement-Main Library



Window Replacement-Main Library

Recommendations

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

- ✓ Appropriate personnel should carefully review invoices for accuracy, appropriateness, and agreement to contractual terms and price agreements prior to the approval of payment.

Library Corrective Action Plan

- Library and Public Works & Assets personnel responsible for these functions are now complying with this recommendation.

#4 – Newburg Library

Project Summary

This project was incorporated in an issue of appropriations of Capital Cumulative Reserve Funds, a 2009 Capital Bond and a 2007 General Obligation Bond. The project provided funding for the Newburg Library construction, books, materials and equipment.

Authorizing Legislation

Louisville Metro Ordinance #111, Series 2008

Authorized Appropriation

\$1,800,000

Observations

Some issues were noted with the administration of the Newburg Library capital project. Specifics include the following.

- **Appropriation.** No issues were noted. The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** There was an issue noted in determining the capital project expenditures' compliance with the contractual terms due to the invoices inadequate supporting documentation. The lack of adequate support documentation disables the verification of compliance to contractual terms and price agreement.
 - There was one case in which the contract states that the price of the goods / services will be a fixed percentage price reduction discounted from the manufacturer's list price at the time of purchase. The manufacturer's list price at the time of purchase was not documented. This made it difficult to determine if the price for the goods / services was in accordance with contractual terms.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following is an image of the item reviewed.



Newburg Library Building



Interior of Newburg Library

Recommendations

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

- ✓ Documentation should be maintained for goods purchased under contracts in which the price terms are a discount from current prices. The documentation should include the price at the time the order was placed, and the discounted price that will be invoiced. This should be part of the supporting documentation with the payment document.

Library Corrective Action Plan

- A new procedure to this effect is now incorporated into all Metro invoices for payment with discounted price contracts. The Library and the Department of Public Works and Assets personnel now adhere to the new procedure.

Office of Internal Audit

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