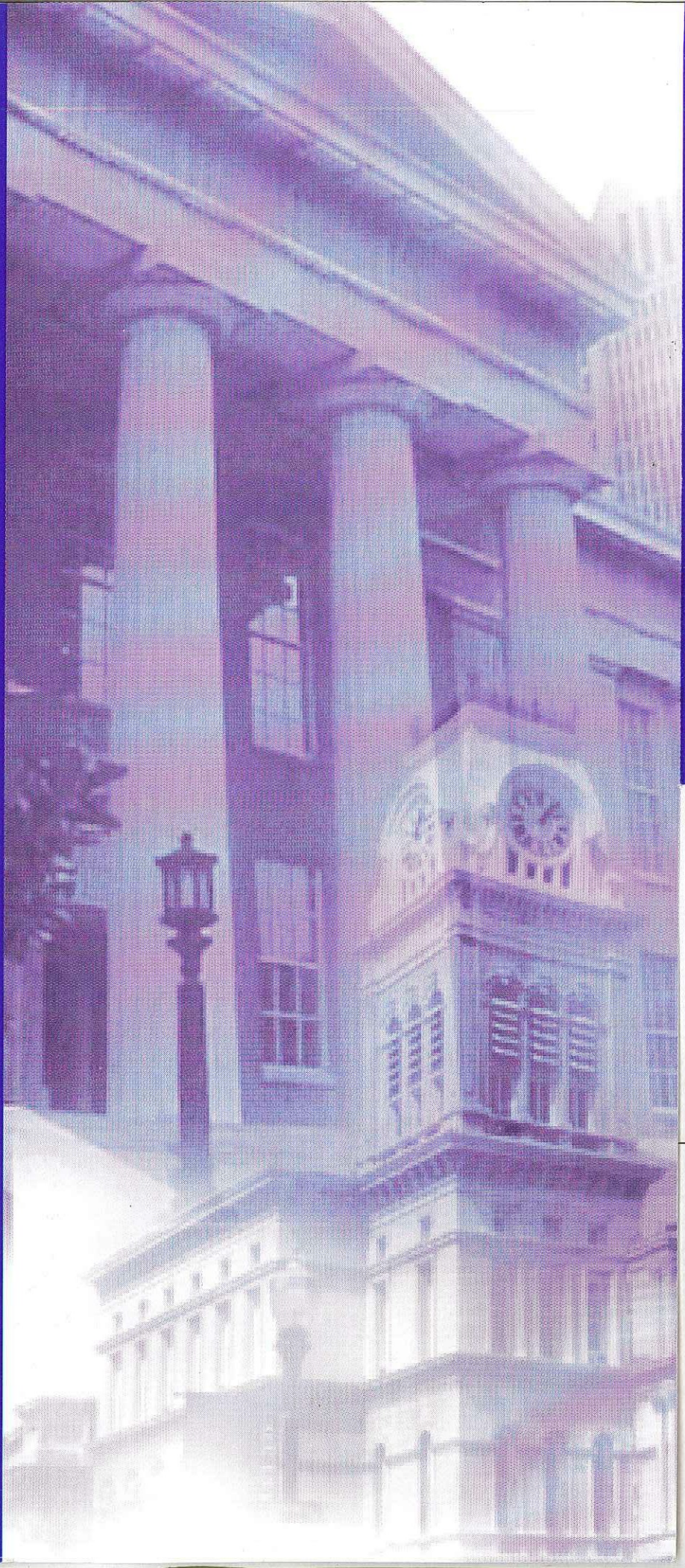
Greg Fischer
Mayor

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 Metro Government

2011 Payroll Activity

Audit Report

Louisville Metro Government

2011 Payroll Activity

July 2012

Office of Internal Audit

Louisville Metro Government

2011 Payroll Activity

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Executive Summary

PROJECT TITLE
Louisville Metro Government – 2011 Payroll Activity
OBJECTIVE AND SCOPE
The objective was to obtain reasonable assurance that payroll activity was processed appropriately and internal controls were effective in mitigating certain risks. The primary focus of the audit was high level reviews and analysis of payroll data, covering highest gross and key personnel earnings, use of earn codes, vacation leave balances and vacation pay at termination. Testing included activity during calendar year 2011 (January 1, 2011 to December 31, 2011). The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report. This was a scheduled audit.
INTERNAL CONTROL ASSESSMENT
SATISFACTORY
RESULTS
The overall administration of 2011 payroll activity is satisfactory. There were no issues noted with regards to highest gross and key personnel earnings, use of earn codes, vacation leave balances or vacation pay at termination. This provides reasonable assurance that the internal controls were effective and functioning as intended. No recommendations are necessary at this time.

OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

JIM KING
PRESIDENT METRO COUNCIL

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

Transmittal Letter

July 27, 2012

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

Subject: Audit of Louisville Metro Government's 2011 Payroll Activity

Introduction

In accordance with internal auditing best practices, an enterprise-wide review of 2011 payroll activity was performed. The objective was to obtain reasonable assurance that payroll activity was processed appropriately and that internal controls were effective in mitigating certain risks. This was achieved by performing high-level reviews and analyses of payroll data. Individual employee time records were not reviewed. An additional benefit of this review was the opportunity to provide Louisville Metro Directors with information that helps in managing their human resources.

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.

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Scope

The review period covered calendar year 2011 (January 1, 2011 – December 31, 2011) and included the following areas:

- Highest Gross Earnings
- Key Personnel Earnings
- Earn Code Analysis
- Leave Balances
- Vacation Pay at Termination

Activity from each area was reviewed to ensure appropriateness. 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 data.

Opinion

It is our opinion that the internal control structure for Louisville Metro Government's payroll activity is satisfactory. The internal control rating is on page 6 of this report. This rating quantifies the opinion regarding the internal controls.

- There were no issues noted with regards to highest gross and key personnel earnings, use of earn codes, vacation leave balances or vacation pay at termination. This provides reasonable assurance that the internal controls were effective and functioning as intended.

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Corrective Action Plan

No issues were noted with the Louisville Metro Government's calendar year 2011 payroll activity reviewed. Therefore, a corrective action plan was not necessary.

Sincerely,

Ingram Quick, CIA, CFE
Chief Audit Executive

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

Internal Control Rating

Legend

Criteria	**Satisfactory**	**Needs Improvement**	**Inadequate**
Issues	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

Personnel costs are normally one of the largest operating budget items for departments. It is imperative that proper controls are in place to provide accountability for the funds expended. In accordance with internal auditing best practices, routine reviews of payroll activity can help in obtaining reasonable assurance that payroll activity is processed appropriately and that internal controls are effective in mitigating certain risks.

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 performed a prior review of Louisville Metro 2010 payroll activity and issued the results in October 2011. Unless otherwise noted, all prior issues have been satisfactorily addressed.

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 audit did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the examination 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 July 17, 2012. There were no issues noted with the Louisville Metro Government's calendar year 2011 payroll activity reviewed. Therefore, a formal exit conference was not conducted and a corrective action plan was not necessary.

Observations and Recommendations

Scope

An enterprise-wide review of Louisville Metro Government's 2011 payroll activity was performed. The objective was to obtain reasonable assurance that payroll activity was processed appropriately and that internal controls were effective in mitigating certain risks. This was achieved by performing high-level reviews and analyses of summarized payroll data. Individual time records were not reviewed. The review would not reveal all issues because it was based on selective review of data.

The review period covered calendar year 2011 (January 1, 2011 – December 31, 2011). The population for each area reviewed was as follows.

- **Highest Gross Earnings.** Data for employees with $100,000 or more in gross earnings for the year was obtained. There were a total of 215 employees identified. A sample of 8 employees was judgmentally selected for review to ensure appropriateness of activity.

- **Key Personnel Earnings.** Data for gross earnings for key personnel was obtained. This included Office of Management and Budget, Human Resources, and Information Technology employees whose job function allows them high-level access to the payroll system. There were a total of 24 employees identified as key personnel. A sample of 6 employees was judgmentally selected for review to ensure appropriateness of activity.

- **Earn Code Analysis.** A list of Louisville Metro earn codes was obtained from the PeopleSoft payroll system (PeopleSoft). There were approximately 192 active earn codes identified. A sample of 8 earn codes was judgmentally selected for review to ensure appropriateness of activity.

- **Leave Balances.** Data for employees with accrued vacation time in excess of 60 days was obtained. Per Metro Personnel Policies, an employee cannot accrue more than 60 days of vacation time. There were 200 employees identified. The employees were reviewed to ensure that the accruals of time were appropriate.

- **Vacation Pay at Termination.** Data for employees who received compensation for accrued unused vacation leave at the time of their termination of employment with Louisville Metro was obtained. Per Metro Personnel Policies, an employee can be compensated for up to 40 days of accrued unused vacation leave upon separation from Louisville Metro Government employment.

Observations

The internal control structure is satisfactory. There were no issues noted with regards to highest gross and key personnel earnings, use of earn codes, vacation leave balances or vacation pay at termination. This provides reasonable assurance that the internal controls were effective and functioning as intended.

Recommendations

No recommendations are necessary at this time.

Office of Internal Audit
Reader Survey

Please help us serve you better by taking a few minutes to complete this survey and returning it by mail, facsimile, or email. Contact information is as follows. For your convenience, this form is available on the Office of Internal Audit website.

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Name of Report _Louisville Metro Government 2011 Payroll Activity

How do you rate this report?			
	Beneficial	**Somewhat Helpful**	**Needs Improvement**
Background Information	☐	☐	☐
Details	☐	☐	☐
Length of Report	☐	☐	☐
Clarity of Writing	☐	☐	☐
Potential Impact	☐	☐	☐

Suggestions, comments, ideas, thoughts: _____

_____

_____

_____

_____

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