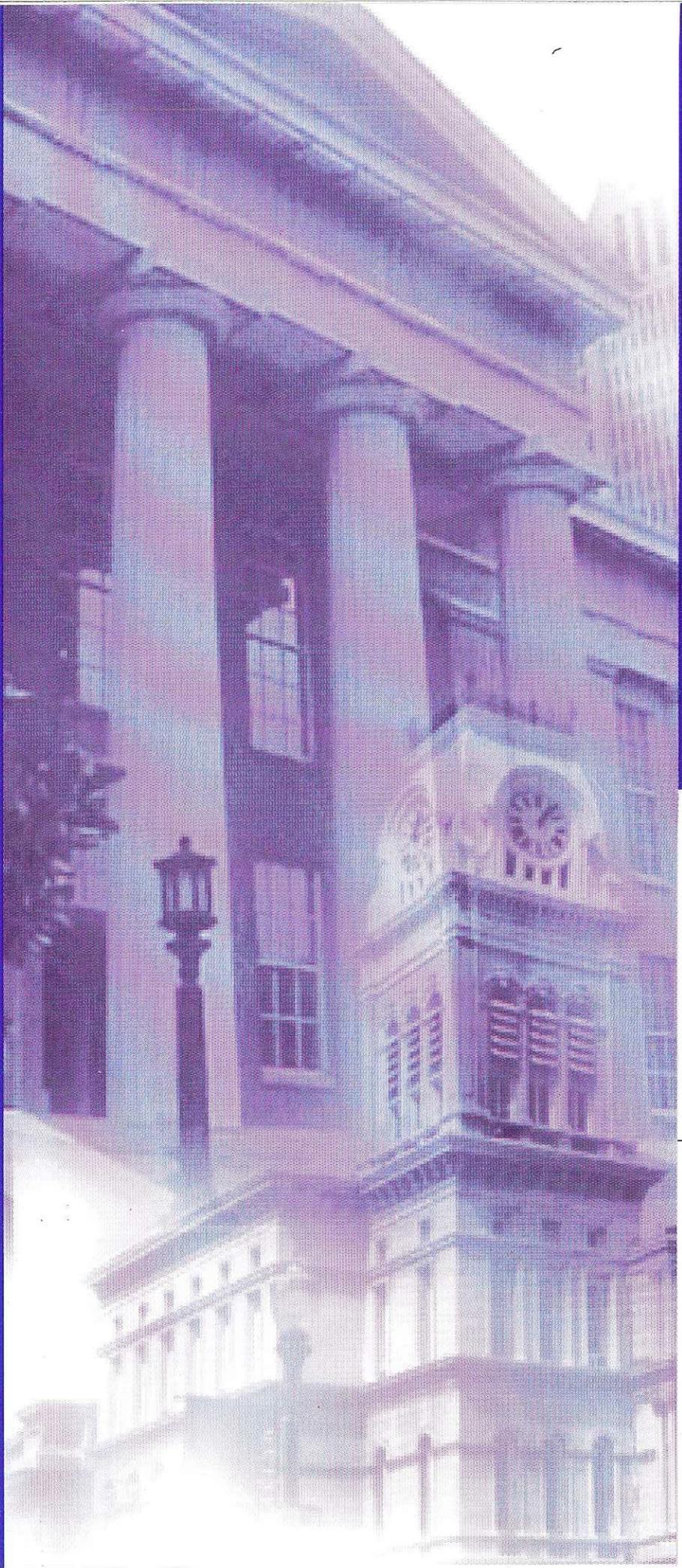




Greg Fischer  
Mayor

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 Parks and  
Recreation

Capital Projects

# Audit Report

## Louisville Metro Parks and Recreation

### Capital Projects

March 2013

Office of Internal Audit



Louisville Metro Parks and Recreation

Capital Projects

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## Executive Summary

<b>PROJECT TITLE</b>	
<b>Metro Parks and Recreation - Capital Projects</b>	
<b>OBJECTIVE AND SCOPE</b>	
<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 August 31, 2012. The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.</p>	
<b>INTERNAL CONTROL ASSESSMENT</b>	<b>SECTION</b>
<b>Needs Improvement</b>	<b>Capital Projects</b>
<b>RESULTS</b>	
<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 Metro Parks and Recreation capital projects. Examples of the issues include the following.</p> <ul style="list-style-type: none"> <li>• There were cases where the contract was not effective at the time of the purchase.</li> <li>• There were issues noted in determining the capital project expenditures' compliance with the contractual terms due to the invoices' inadequate supporting documentation.</li> </ul>	



OFFICE OF INTERNAL AUDIT  
LOUISVILLE, KENTUCKY

GREG FISCHER  
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

JIM KING  
PRESIDENT METRO COUNCIL

**Transmittal Letter**

March 20, 2013

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

**Subject: Audit of the Louisville Metro Parks and Recreation - Capital Projects**

**Introduction**

An audit of the Louisville Metro Parks and Recreation (Parks) 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 Parks 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 funding appropriated for each is noted.

- General Repair Account, \$3,162,198
- Algonquin Park Master Plan, \$165,000
- Okolona Park Improvements, \$235,000
- Charlie Vettiner Clubhouse, \$1,000,000

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 August 31, 2012.

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 are 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 Parks 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 issues were noted with the expenditure activity for the four projects reviewed.

- *Compliance Issues.* There were a number of cases in which the project expenditure was not in compliance with the contractual terms.
- *Documentation Issues.* There were two cases in which it could not be determined if the project expenditure was in compliance with contractual terms due to the lack of supporting documentation.

### **Corrective Action Plan**

Representatives from Parks 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 Parks to ensure the actions taken are effective to address the issues noted.

Sincerely,

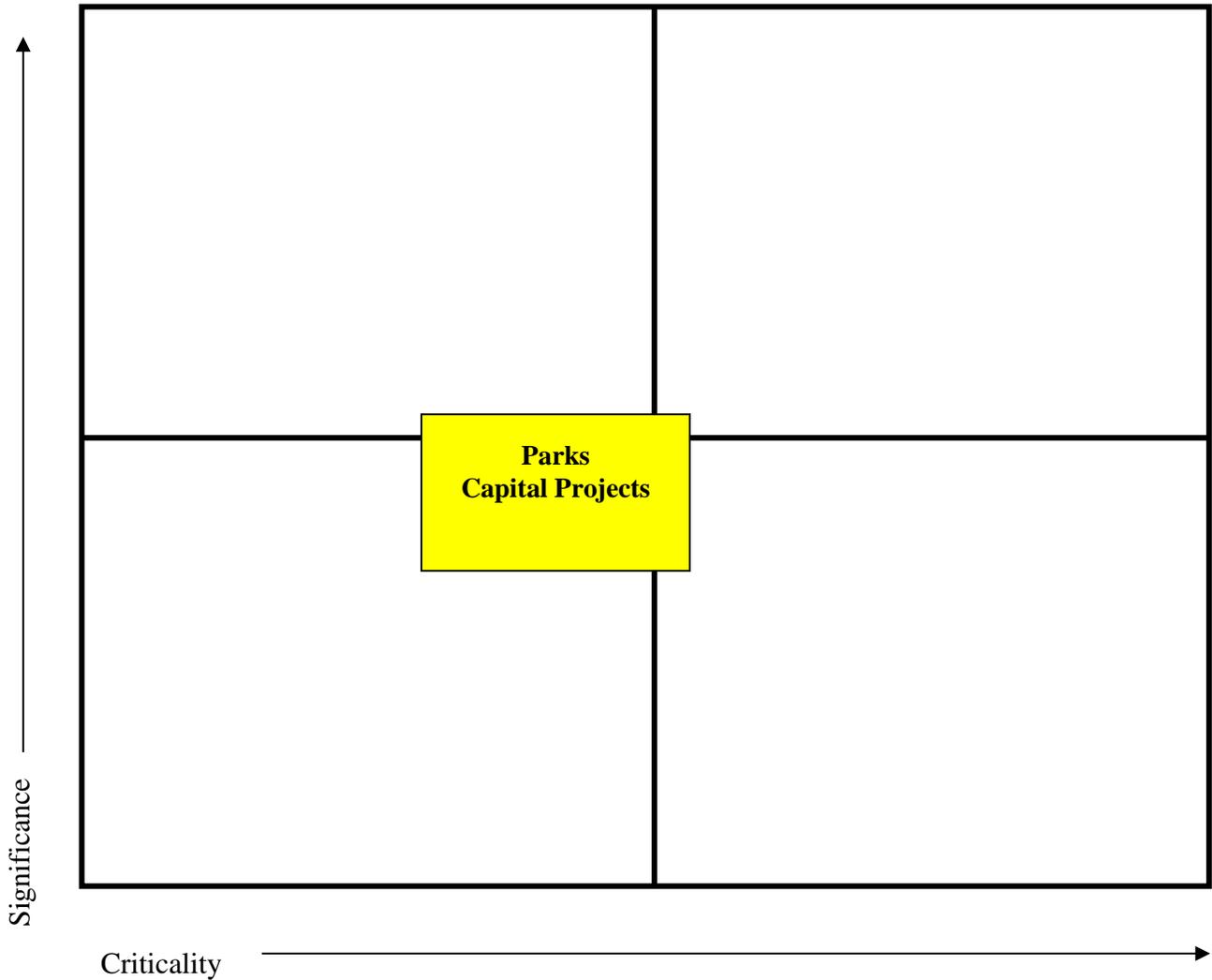


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Ingram Quick, CIA, CFE  
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee  
Director of Metro Parks and Recreation  
Louisville Metro External Auditors

**Internal Control Rating**



<u>Legend</u>			
<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.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	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 Metro Parks and Recreations 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 August 31, 2012, Parks had a total of 130 active capital projects with expenditures totaling approximately \$22,170,000.

The administration of capital projects often involves resources from multiple Metro departments, such as 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 Parks 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 Parks on February 12, 2013. An exit conference was held at the Parks Administration Building (1297 Trevilian Way) on March 8, 2013. Attending were Marty Storch, Mary Ann Westenhofer, and Jason Canuel representing Parks and Ingram Quick and Jason Byrd representing Internal Audit. Final audit results were discussed.

The views of Parks officials were received on March 14, 2013 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 Parks response was provided within this required timeframe.

## Observations and Recommendations

### Scope and Methodology

The expenditures for selected Parks 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 Parks 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 August 31, 2012.

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

- General Repair Account, \$2,668,083
- Algonquin Park Master Plan, \$165,000
- Okolona Park Improvements, \$212,094
- Charlie Vettiner Clubhouse, \$999,689

The total expenditures for these projects were \$4,044,866, or 18.24% 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 Parks 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 – General Repair Account
- #2 – Algonquin Park Master Plan
- #3 – Okolona Park Improvements
- #4 – Charlie Vettiner Clubhouse

Details of these begin on the following page.

## #1 – General Repair Account

### Project Summary

This project is funded annually and allows Metro Parks to maintain and renovate facilities to maintain national standards, in addition to handling repairs for unexpected damages during the year. Emphasis is on repairs that are necessary to ensure public safety and keep facilities open. Goals of this project are to deliver excellent city services and invest in our people and neighborhoods to advance the “quality of place.”

### Authorizing Legislation

Louisville Metro Ordinance #115, Series 2003  
Louisville Metro Ordinance #214, Series 2003  
Louisville Metro Ordinance #94, Series 2004  
Louisville Metro Ordinance #98, Series 2005  
Louisville Metro Ordinance #112, Series 2006  
Louisville Metro Ordinance #126, Series 2007  
Louisville Metro Ordinance #111, Series 2008  
Louisville Metro Ordinance #90, Series 2009  
Louisville Metro Ordinance #118, Series 2010  
Louisville Metro Ordinance #141, Series 2011  
Louisville Metro Ordinance #119, Series 2012

### Authorized Appropriation

\$3,162,198

### Observations

Some issues were noted with the administration of the General Repair Account 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.** Contractual issues were noted with the expenditure activity for the capital project reviewed.
  - *Documentation Issue.* In one case it could not be determined if the project expenditure was in compliance with contractual terms due to the lack of detail on the invoice. The invoice only listed the number of labor hours and the hourly rate of pay; however, the contract listed hourly rates for each labor type (e.g., journeyman, apprentice). The invoice did not specify the labor type, so the amount charged could not be verified.
  - *Compliance Issue.* There was one case where the expenditure was not in compliance with the contractual terms. The vendor’s invoice included services that were not included in the terms of the agreement. The invoice stated HVAC services were purchased from the vendor while the contract is for plumbing services. The total amount of the expenditure associated with this issue was approximately \$963.

- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed.



*Wood chipper*



*Roof top HVAC unit on Portland Community Center*

### **Recommendations**

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

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

## #2 – Algonquin Park Master Plan

### Project Summary

This funding is to develop a Master Plan for Algonquin Park in order to guide future uses and construction in the park. This plan will include historical research, consideration of various community proposals and integration with nearby Park DuValle development.

### Authorizing Legislation

Louisville Metro Ordinance #94, Series 2004  
Louisville Metro Ordinance #126, Series 2007

### Authorized Appropriation

\$165,000

### Observations

Some issues were noted with the administration of the Algonquin Park Master Plan 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.** Contractual issues were noted with the expenditure activity for the capital project reviewed.
  - *Compliance Issues.* There were six cases in which the contract was not effective at the time the expenditure was incurred. An extension of the contract could not be located in the vendor's purchasing file. The total amount of expenditures associated with these issues was approximately \$11,504.
  - *Documentation Issues.* In one case it could not be determined if the project expenditure was in compliance with contractual terms due to the lack of detail on the invoice. The invoice only listed the number of labor hours and the hourly rate of pay; however, the contract listed hourly rates for each labor type (e.g., journeyman, helper). The invoice did not specify the labor type, so the amount charged could not be verified.

- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed.



*Algonquin Park Multipurpose Field and Walk Path*



*Algonquin Park Pavilion*

### **Recommendations**

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

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

### **#3 – Okolona Park Improvements**

#### **Project Summary**

This project provides funding for site improvements at Okolona Park, including walking paths, restorations for sports fields, and the planning and implementation of a spray park. Other associated site improvements are included.

#### **Authorizing Legislation**

Louisville Metro Ordinance #118, Series 2010  
Louisville Metro Ordinance #237, Series 2010  
Louisville Metro Ordinance #111, Series 2008  
Louisville Metro Ordinance #126, Series 2007

#### **Authorized Appropriation**

\$235,000

#### **Observations**

- **Appropriation.** No issues were noted. The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** No issues were noted. The capital project expenditures reviewed were in compliance with the contractual agreement.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed.



*Okolona Park Restroom and Pavilion*



*Okolona Park Baseball/Softball Backstop*

#### **Recommendations**

No recommendations have been provided.

## **#4 – Charlie Vettiner Clubhouse**

### Project Summary

This project provides funding for the construction of a new clubhouse at Charlie Vettiner Golf Course. The existing clubhouse was designed approximately 40 years ago for a nine-hole facility. Charlie Vettiner Golf Course is now considered one of Metro's flagship 18-hole golf courses.

### Authorizing Legislation

Louisville Metro Ordinance #118, Series 2010

### Authorized Appropriation

\$1,000,000

### Observations

Some issues were noted with the administration of the Charlie Vettiner Clubhouse 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 project expenditure's compliance with the contractual agreement. There was one instance in which the contract was not effective at the time the expenditure was incurred. An extension of the contract could not be located in the vendor's purchasing file. The total amount of expenditures associated with this issue was approximately \$2,293.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed.



*Charlie Vettiner Clubhouse*

### **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.

## **Parks Corrective Action Plan**

Thank you for the opportunity to respond to the 2013 Capital Projects audit. I am pleased to work as a team with Internal Audit to improve accountability and professionalism in our department. We are pleased expenditure activity for all four projects reviewed was in compliance with intended use of appropriations. Issues brought to light in this audit concern the verification of invoice billings and compliance to contracts. We will work with our staff to address these issues, but believe we must have assistance from OMB. All staff do not have access to current contracts, nor do we always have the ability to verify encumbrances were correctly put in place.

We will work with OMB to train staff on procurement process. These procedures will be reviewed as part of SLA. Additionally, we will make every effort to correct the areas where we have control of the process. Currently, all contracts (as bid through purchasing and PSCs) are housed in Business Operations. We would like to discuss options with OMB to allow our staff the ability to review current legal documents, perhaps a central repository, as our staff does not have access to the Leap financial system.

We have recently hired a new Assistance Director for our Park Resources and Capital Construction divisions. We believe this position will provide administrative oversight for our management team responsible for the administration of our capital improvement projects. In response to the observations identified in the exit interview, we have the follow responses.

### **#1 – General Repair Account**

**Documentation** – We agree with the need to supply proper backup documentation for our vendor invoices. We have discussed this need with Parks' staff and our business administrator. Our project managers have been advised on the need to provide documentation for billed labor and materials, starting immediately. Additionally, a vendor letter will be prepared detailing our backup documentation requirements and mailed to vendors for our capital projects immediately.

**Compliance issue** – This invoice was mistakenly paid against the Public Works PSC contract, #264371 for plumbing services, instead of PSC #264357 for HVAC repair work at Mary T. The invoice would be compliant with contract #264357 if the encumbrance was set up correctly. We would like to work with OMB to review our encumbrances and invoices for appropriate coding to verify that encumbrances are set up appropriately.

### **#2 - Algonquin Park Master Plan**

**Contractual** – The Architectural work for the Algonquin Park was included on a PSC, renewed over three years, with three separate headers. All of these invoices were encumbered under release #5 on November 24, 2009. At this time, they were set up under the correct contract. When the contract expired, 3 months later, Parks renewed the contract. At which time, the encumbrance should have been closed out and transferred to the new header. The use of the correct contract would have made our agency compliant. We would like to collaborate with OMB to identify some type of flag system to prevent this type of mistake from happening in the future.

**Documentation** – We agree with the need to supply proper backup documentation for our vendor invoices. We have discussed this need with Parks' staff and our business administrator. Our project managers have been advised on the need to provide documentation for billed labor and materials, starting

immediately. Additionally, a vendor letter will be prepared detailing our backup documentation requirements and mailed to vendors for our capital projects immediately.

**#3 – Okolona Park Improvements**

No issues were noted. The expenditures reviewed were in compliance with the intended use of the appropriation and contractual agreement. Therefore, no corrective action is necessary for this capital project.

**#4 – Charlie Vettiner Clubhouse**

**Contractual** – The encumbrance for this contractual purchase was set up in the LEAP financial system on September 29, 2011, the day before contract expiration. The date listed on the invoice as shipped was the same day as the invoice date. We believe this is a company invoicing error. The items were ordered on the date the purchase order was originated and picked up the next day. We are confident that the goods were not shipped out October 20, 2011. Additionally, we will explore with OMB a procedure for flagging or identifying contract to avoid future procurement issues.

We will pursue the possibility of allowing our project managers to have access to a central repository or the LEAP financial system (view access only). This should allow Parks' staff the ability to review encumbrances, invoices and contracts.

We look forward to working with Internal Audit and OMB to address these issues.



**Office of Internal Audit**  
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Office of Internal Audit  
609 West Jefferson Street  
Louisville, Kentucky 40202  
Fax: (502) 574-3599  
Email: [internalaudit@louisvilleky.gov](mailto:internalaudit@louisvilleky.gov)  
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**Name of Report** Louisville Metro Parks and Recreation – Capital Projects

<b>How do you rate this report?</b>			
	<b>Beneficial</b>	<b>Somewhat Helpful</b>	<b>Needs Improvement</b>
Background Information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Details	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Length of Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Clarity of Writing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Potential Impact	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Suggestions, comments, ideas, thoughts: \_\_\_\_\_  
\_\_\_\_\_  
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Office of Internal Audit

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