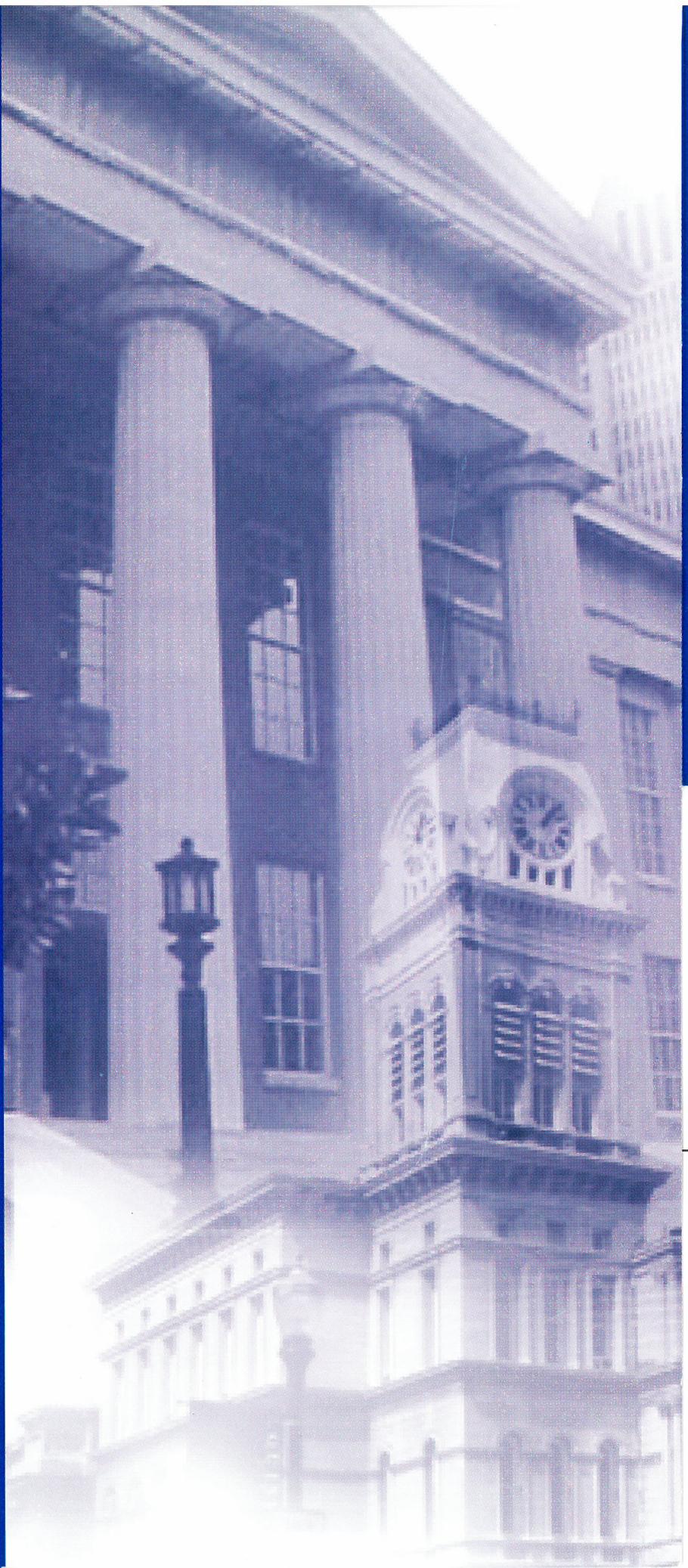




Greg Fischer
Mayor

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

Youth Detention Services

Capital Projects

Audit Report

Youth Detention Services

Capital Projects

February 2014



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Executive Summary

PROJECT TITLE
Youth Detention Services - 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 June 30, 2013. 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
Satisfactory
RESULTS
<p>Expenditure activity for the capital project reviewed was in compliance with the intended use of the appropriation. Opportunities exist for improving the internal control structure for the administration of Youth Detention Services capital projects. There was one issue noted as follows.</p> <ul style="list-style-type: none">• There was an issue in which capital project expenditures were not in compliance with contractual terms due to the erroneous use of an inappropriate contract.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

February 12, 2014

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

Subject: Audit of the Youth Detention Services - Capital Projects

Introduction

An audit of the Youth Detention Services (YDS) 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. Due to the limited number of current YDS capital projects available for selection, one capital project was 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 the selected YDS capital project were reviewed. The objective was assessing compliance with the intended use of the appropriation and contractual terms with suppliers. The following project was included in the review. The total amount of funding appropriated for the project is noted.

- Equipment and Facility Maintenance, \$180,000

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 June 30, 2013.

An understanding of the capital project 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.

All expenditures from the project were 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 project 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

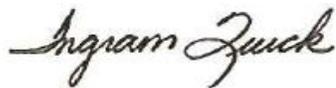
It is our opinion that the internal control structure for the YDS capital project is satisfactory. The internal control rating is on page 6 of this report. This rating quantifies the opinion regarding the internal controls. Specific compliance results include the following.

- **Appropriation.** Expenditure activity for the one project reviewed was in compliance with the intended use of the appropriation. No recommendations were necessary.
- **Contractual.** There was one issue noted in which capital project expenditures were not in compliance with contractual terms due to the erroneous use of an inappropriate contract.

Corrective Action Plan

Representatives from YDS have reviewed the results and are committed to addressing the issue noted. The corrective action plan is included in this report in the Observations and Recommendations section. We will continue to work with YDS to ensure the actions taken are effective to address the issue noted.

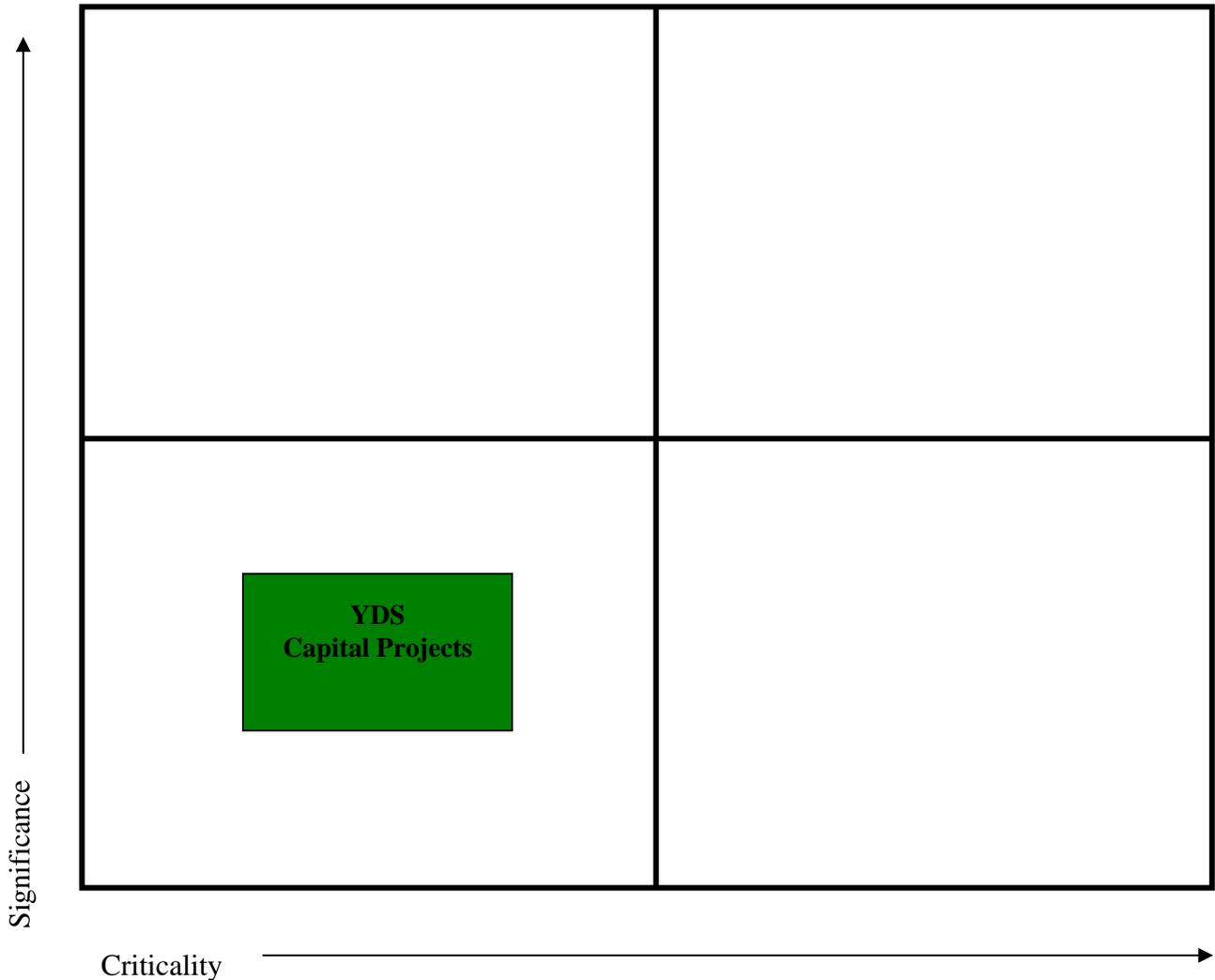
Sincerely,



Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Director of Youth Detention Services
Louisville Metro External Auditors
Louisville Metro Council President

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 Youth Detention Services (YDS).

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 June 30, 2013, YDS had a total of one active capital project with expenditures totaling approximately \$180,000.

The administration of capital projects often involves resources from multiple Metro departments, such as Public Works and Assets' Project Management Division and the Purchasing Division of the 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 YDS 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 YDS on January 7, 2014. An exit conference was not held with YDS management.

The views of YDS officials 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 YDS response was provided within this required timeframe.

Observations and Recommendations

Scope

The expenditures for the selected Youth Detention Services (YDS) capital project were reviewed. The objective was assessing compliance with the intended use of the appropriation and contractual terms with suppliers. The review included 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 YDS capital projects was compiled from various sources. This included reviews of annual capital budget documents and Louisville Metro's financial system. The review period covered project inception through June 30, 2013.

The project name, and total amount of expenditures during the review period, is as follows.

- Equipment and Facility Maintenance, \$180,000

An understanding of the capital project 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.

All expenditures from the project were 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 project 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

One issue was noted with the administration of YDS capital projects. As a result, the effectiveness of the internal control structure is satisfactory. However, there are opportunities for improvement. Results, along with opportunities noted to strengthen the controls, are as follows.

1) Equipment and Facility Maintenance

Details of these begin on the following page.

1) Equipment and Facility Maintenance

Project Summary

This project provided funding to replace the Youth Detention Services kitchen floor, aging industrial kitchen equipment, and to paint the entire facility (including the residential units) to maintain the facility's accreditation status.

Authorizing Legislation

Louisville Metro Ordinance #141, Series 2011

Authorized Appropriation

\$180,000

Observations

There was an issue noted with the administration of the Equipment and Facility Maintenance 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 which capital project expenditures were not in compliance with contractual terms.
 - There was one issue noted in which capital project expenditures were not in compliance with contractual terms due to the erroneous use of an inappropriate contract. The vendor's invoice did not agree to the prices stated within the contractual agreement specifically executed for expenditures related to the capital project. Louisville Metro Government had multiple contracts on file for the vendor. The goods / services were procured using a contract that was not specific to the Equipment and Facility Maintenance capital project.



Oven



Kickboards



Kitchen Floor



Range

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 appropriate contractual terms and prices prior to the approval of payment.

Youth Detention Services Corrective Action Plan

The noted concern was not under the control of Youth Detention Services' personnel. Since the reorganization in 2011, Purchase Orders and Contract Releases are processed within OMB. The specific issue has been addressed with appropriate staff to avoid future issues. In addition, OMB is working through an additional internal restructure to further improve efficiency.

Office of Internal Audit

Phone: 502.574.3291

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