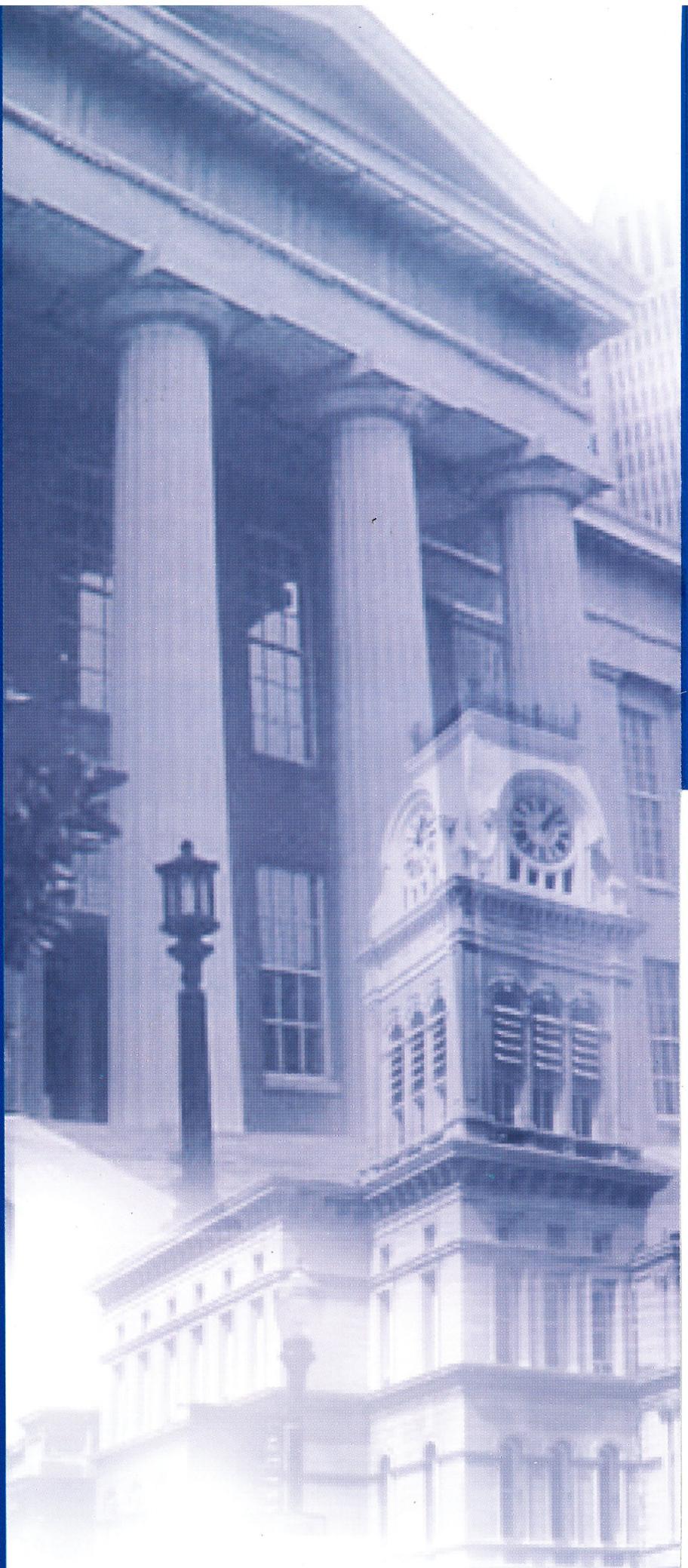




Greg Fischer  
Mayor

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

2014 Annual Report of Activities

# Annual Report

## Office of Internal Audit

### 2014 Annual Report of Activities

January 2015



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OFFICE OF INTERNAL AUDIT  
LOUISVILLE, KENTUCKY

GREG FISCHER  
MAYOR

INGRAM QUICK, CIA, CFE  
CHIEF AUDIT EXECUTIVE

DAVID TANDY  
PRESIDENT METRO COUNCIL

## Transmittal Letter

January 30, 2015

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

**Subject: 2014 Annual Report of Activities**

### Introduction

Enclosed is the 2014 Annual Report of Activities for the Office of Internal Audit. This summarizes the internal audit services provided during the calendar year. The Office of Internal Audit's Charter (LMCO §30.39) requires the presentation of this report within 30 days of the calendar year-end.

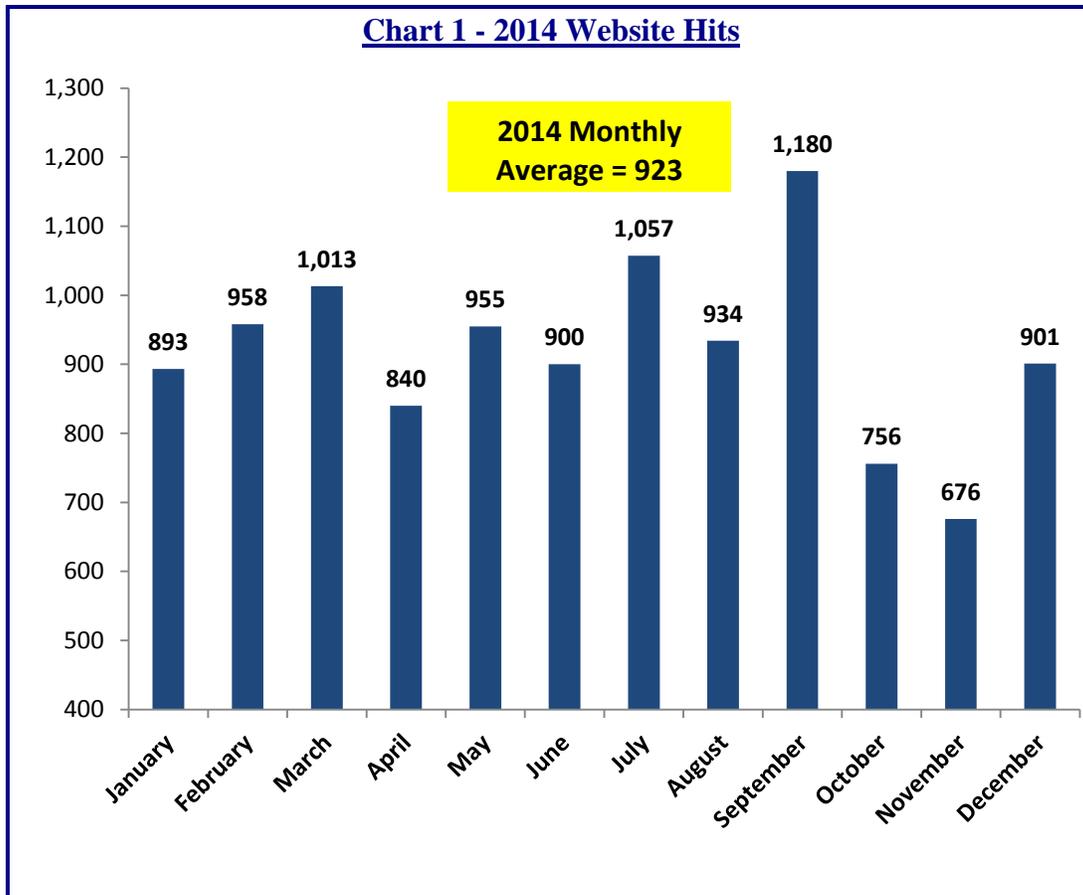
### Highlights

We have made tremendous progress in the past year. We have continued our efforts in providing assurance and consulting activities which assist both policy makers and management in providing high quality services. The services we provide assist in ensuring Louisville Metro Government is transparent, ethical and accountable to its citizens. Some of our highlights from this past year include:

- **Productivity.** Productivity increased as a result of successful staff recruitment and training efforts. While dealing with vacancies, which include a management position that has remained unfunded since 2011, we have managed to see significant gains in productivity with the number of audit reports increasing 36% from the prior year. In 2014, staff time charged to audit projects was 73% of the available staff time, increasing by a large margin (7%) from the prior year. One of the primary goals in our six year strategic plan is to increase our productivity rate to 75% by fiscal year 2017, which is the industry average for the audit profession. While there is a steep learning curve for new staff, we have been able to recruit candidates that can learn quickly and make immediate contributions. Also, we were able to leverage our training resources to obtain assistance from external training providers, which helps decrease the learning curve and allows senior staff more time to focus on audit projects.

- **Staff Professionalism.** The staff members of the Office of Internal Audit have diverse educational backgrounds and work experience. Staff educational backgrounds include accounting, business administration, economics, and finance. Additionally, staff members have professional certifications and / or post baccalaureate degrees. This wide range of educational training and experience brings a broad perspective to the variety of audit work the Office conducts.

  - Three staff members are Certified Internal Auditors and one staff member is pursuing the designation. There is one Certified Fraud Examiner on staff as well as one Certified Public Accountant. Additionally, four of our six staff members have a post baccalaureate degree (i.e., Masters of Business Administration, Masters of Accountancy).
- **Ethics Tipline.** The Ethics Tipline provides a means for Louisville Metro employees and citizens to confidentially report suspected instances of unethical conduct by Louisville Metro employees, contractors, partners, and suppliers. The Office of Internal Audit is responsible for the administration of the tipline, including the preparation of monthly / annual activity reports, updating the public website and providing training on case management when needed. In addition, the Office of Internal Audit may act as case manager and / or case investigator for tipline incidents when requested by the other Ethics Tipline partners in Louisville Metro Government (e.g., Human Resources or Louisville Metro Police Department).
- **Risk Based Audit Plan.** Our professional standards require the chief audit executive to establish a risk-based approach to determine the priorities for audit activities. An enterprise wide risk assessment serves as the basis for the Office of Internal Audit's Annual Audit Plan. Budgetary and component unit information in Louisville Metro's financial statements are used to define the audit universe (*all of Louisville Metro Government's potential audits that could be performed*). This continues our movement towards a more risk centric focus, with enterprise risk management as the underlying principle. This supports our efforts to dedicate resources to governance, risk, and compliance activities that are aligned with Louisville Metro Government's strategic goals.
- **Information Technology Audits.** Information Technology (IT) is vital to Louisville Metro Government's operations and requires a significant investment in resources. IT audit services are co-sourced, and resources are budgeted to compensate an external consultant. This allows for highly technical IT audits for which we do not possess the skills internally. These audit projects are critical since Louisville Metro Government continues to become more dependent and reliant on technology to deliver quality services to its citizens.
- **Accountability and Transparency.** Citizens' confidence in government is enhanced by accountability and transparency in its services and programs. Our services assist in providing accountability and transparency. Results of audits are routinely posted on our website ([www.louisvilleky.gov/InternalAudit/](http://www.louisvilleky.gov/InternalAudit/)) so that information is readily available to our citizens. In 2014, our website averaged 923 hits per month. The monthly activity is illustrated in Chart 1.



- **Quality Assurance and Improvement Program.** Quality assurance is critical in ensuring that professional internal auditing services are provided. Our Quality Assurance and Improvement Program (QAIP) is a critical component of our operations, and is built into every project. We continuously update our policies and procedures to incorporate opportunities to improve operations. These implementations are monitored to ensure they are effective and changes are made when needed. We continue to be successful in ensuring our services are performed in accordance with professional internal auditing standards.
  - **Strategic Plan.** The Office of Internal Audit has implemented a departmental strategic plan. Our strategic plan was a process by which we determined the goals and objectives of the Office and developed strategies and tactics to achieve desired results. Goals, objectives and initiatives are the cornerstone of our strategic plan and are the roadmap for growth and success within our department.
  - **External Quality Assessment Review.** Our professional standards require an external assessment be conducted at least once every three years by a qualified independent assessor from outside the organization. The purpose is to ensure the Office of Internal Audit is in compliance with both the International Professional Practices Framework (IPPF) issued by the Institute of Internal Auditors and the Government Auditing Standards issued by the Comptroller General of the United States.



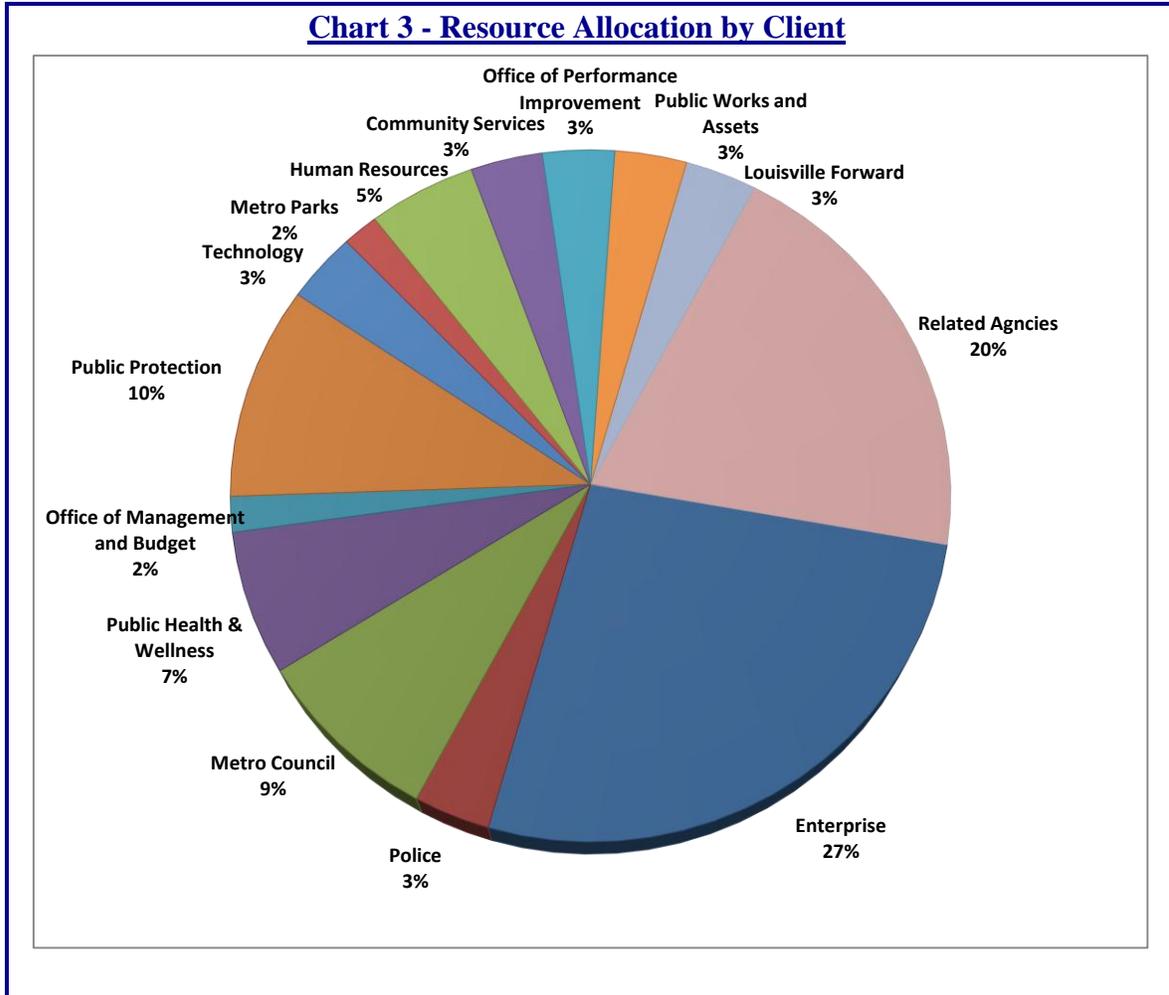
## Audit Services

In calendar year 2014, the Office of Internal Audit completed 61 audit projects; including assurance reviews, IT technical audits, consulting activities, and integrity reviews. During that same period, we made 76 recommendations, of which 73 (96%) were agreed to by the audited agencies. We track the acceptance and implementation of our audit recommendations that identify efficiency gains, provide economical guidance, improve operational effectiveness, and ensure adequate controls are in place to prevent fraud.

Resource allocation by core service is represented in Table 1. The following information is provided to show the use of our resources during the year. Please note that analyses using project hours can be misleading, especially for IT audit services. Since IT core services are co-sourced, minimal actual staff hours are dedicated to the projects, however; these projects require a substantial amount of financial resources since an external consultant performs the majority of the work.

<b>Table 1 – Resource Allocation by Core Service</b>			
<b>Core Service</b>	<b>Type of Project</b>	<b>Number of Projects</b>	<b>Total Hours</b>
<b>Assurance</b>		<b>21</b>	<b>5,082</b>
	Capital Projects	3	658
	Compliance	3	544
	Expenditures	2	642
	Operational	10	1,635
	Revenue	3	1,603
<b>Consulting</b>		<b>30</b>	<b>1,519</b>
	Advice and Information	13	525
	Consultation	9	110
	Internal Process Improvement	2	344
	Committee	1	30
	Special Request	1	271
	Education and Training	4	239
<b>Information Technology</b>		<b>1</b>	<b>45</b>
	IT Technical	1	45
<b>Integrity</b>		<b>9</b>	<b>1,327</b>
	Advice and Information	3	400
	Special Request	6	927
	<b>Grand Total</b>	<b>61</b>	<b>7,973</b>

- Clients Served.** Resource allocation by clients (i.e., Louisville Metro Agency or Enterprise if applicable to the entire organization) is presented in Chart 3. This allocation is based on the number of projects. This demonstrates our efforts to maximize service coverage by providing internal audit services to a variety of clients and functional areas.



## Report Presentation

The Annual Report of Activities begins on page 9. It is sorted by Louisville Metro Agency – Department (Division), and then by the project. The status of the project is noted since not all are complete and some are pending actions by other parties. The type of core service provided is noted. A brief definition of these core services is as follows.

- **Assurance.** Reviewing operations, activities, policies, and procedures to ensure that business risks are mitigated through effective internal controls. This core service includes Capital Projects, Compliance, Expenditures, Operational, and Revenue reviews.
- **Consulting.** Providing services to help address specific issues and concerns. These issues may not necessarily be high-risk areas but add significant value to clients. Overall, these efforts do not require a substantial investment of our resources which helps maximize the value of the service. This core service includes Advice and Information, Consultation, Committees, and Education / Training.
- **IT Audit.** Ensuring that information technology controls, primarily security related, are effective. This is achieved with the assistance of an external consultant. This core service includes IT Technical.
- **Integrity.** Investigating allegations regarding employee misconduct and / or non-violent criminal acts involving Louisville Metro government resources. These investigations are in response to situations which require immediate action and a substantial amount of resources. This core service includes Special Investigations and Fraud Detection Best Practices. The administration of Louisville Metro Government's Ethics Tipline is part of this core service.

## Conclusion

We remain focused on our vision *to continually earn the trust of the Mayor, Metro Council, Management, Employees and Citizens while ensuring that public resources are used in an effective, efficient and ethical manner.* Our success would not be possible without the support of the Mayor and the Louisville Metro Council, and the cooperation of our clients. If you have any questions, or would like to discuss this report in more detail, please let me know.

Respectfully submitted,



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Ingram Quick, CIA, CFE  
Chief Audit Executive

cc: Louisville Metro Council President  
Louisville Metro Council Government Accountability and Ethics Committee  
Louisville Metro External Auditors  
Chief of Staff

# **Annual Report of Activities**

## **Calendar Year 2014**

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<i>Area</i>	<i>Status</i>	<i>Issues</i>	<i>Core Service</i>	<i>2014 Hours</i>
<b>Codes and Regulations</b>				
<b>Licenses and Permits Revenue Activity</b>	Ongoing	The focus of this review was the operational and fiscal administration of the activity, with a particular focus on the process for processing fee activity related to Alcoholic Beverage Control (ABC) licensing and electrical and right of way permitting.	Assurance	989
<b>Community Services</b>				
<b>External Agency Grant</b>	Complete	Performed a review of Community Services' External Agency Fund Grants. The primary focus was determining whether funds were used as intended and in compliance with the grant agreement.	Assurance	53
<b>Financial Assistance Program</b>	Complete	Performed a review of Community Services' Neighborhood Place Financial Assistance Program. Reviewed policies, procedures and records of activity, with particular attention to compliance with eligibility requirements.	Consulting	271
<b>Enterprise</b>				
<b>Annual Report of Activities</b>	Complete	Publication of 2013 Annual Report of Activities for the Office of Internal Audit.	Assurance	195
<b>Audit Follow – Up (July 2012 – June 2013)</b>	Complete	Follow-up of audit issues, involving 20 projects at 12 departments and a total of 41 issues. Of these issues, 18 were carried forward from the prior year.	Assurance	22
<b>Audit Follow – Up (July 2013 – June 2014)</b>	Ongoing	Follow-up of audit issues, involving 21 projects at 15 departments and a total of 41 issues. Of these issues, 14 were carried forward from the prior year.	Assurance	160
<b>Cash Management Policy</b>	Ongoing	The primary focus was the operational and fiscal administration of the activity. This includes verifying activity is in compliance with the policy.	Assurance	49
<b>Enterprise Risk Management Framework</b>	Ongoing	Provided guidance and advice on Enterprise Risk Management with agencies' strategic planning liaisons and senior management. Purpose was to introduce concept of ERM with possible use as performance measures further implemented.	Consulting	250

<i>Area</i>	<i>Status</i>	<i>Issues</i>	<i>Core Service</i>	<i>2014 Hours</i>
<b>Ethics Tipline</b>	Complete	Presented the Office of Internal Audit's project planning, implementation and administrative responsibilities for the Louisville Metro Ethics Tipline to peer audit director from Covington KY.	Consulting	5
<b>Ethics Tipline - Administration</b>	Ongoing	Provided ongoing support and guidance to Ethics Tipline case managers and investigators. This included acting as liaison with 3rd party provider for technical support and resolution of other issues.	Integrity	100
<b>Ethics Tipline – Annual Report</b>	Complete	Prepared annual report of Ethics Tipline activity.	Integrity	125
<b>Ethics Tipline – Monthly Reports</b>	Complete	Prepared monthly reports of Ethics Tipline activity as required by ordinance. These reports are distributed and posted to website.	Integrity	175
<b>Office Supplies Contract</b>	Complete	Performed a compliance review of Louisville Metro Government's office supply contract and related expenditure activity. The focus included determining if expenditure activity was in compliance with the terms of the primary office supply contract.	Assurance	248.5
<b>Payroll Review 2013</b>	Complete	Performed a review and analyses of payroll data. The specific areas reviewed included highest gross earnings, key personnel earnings, earn code analysis, leave balances, ghost employees and vacation pay at termination.	Assurance	594
<b>PeopleSoft Payroll Reports / Timesheets</b>	Complete	Discussed the need to keep payroll reports for documented evidence that reports were reconciled to the financial system to ensure accuracy for at least two years.	Consulting	4
<b>PeopleSoft Users Group</b>	Ongoing	Participated in biweekly users group meetings throughout the year.	Consulting	30
<b>Performance Measurement Certification Program</b>	Ongoing	Planning and development of a Performance Metric Certification Program which will serve as a method to assess the reliability and accuracy of the performance measurement data reported on the LouieStat website.	Assurance	120

<i>Area</i>	<i>Status</i>	<i>Issues</i>	<i>Core Service</i>	<i>2014 Hours</i>
<b>Travel Policy</b>	Complete	Performed a compliance review of Louisville Metro Government's Travel Policy. The primary focus was the operational and fiscal administration of the activity.	Assurance	246
<b>Professional Service Contract</b>	Complete	Parks personnel inquired about language in Metro's Professional Service Contract regarding the level of documentation the vendor is required to provide if an audit is requested.	Consulting	2
<b>Supervisor Enhancement and Development (SEAD)</b>	Ongoing	Presented an overview of our department for Supervisor Enhancement and Development course. Approximately 20 Metro managers attend each session, approximately one session every other month.	Consulting	15
<b>Human Resources</b>				
<b>Ethics Tipline #117795746</b>	Complete	Performed an investigation of an allegation that Human Resources hired a person in their department at a salary higher than the starting salary for the position.	Integrity	5
<b>Ethics Tipline #118743228</b>	Complete	Performed an investigation of an allegation that a complaint was not thoroughly investigated by Human Resources.	Integrity	85
<b>Timekeeping Policy</b>	Complete	Provided Human Resources with alternative risk mitigation strategies regarding the possible discontinuance of the Metro Time Card Report to increase efficiencies in the payroll process.	Consulting	7
<b>Louisville Forward – Economic Development</b>				
<b>External Agency Grant</b>	Ongoing	The focus is the operational administration of the activity to include how activity is monitored.	Assurance	98
<b>METCO Loans</b>	Complete	Performed an operational review of the METCO Loan Program administered by Economic Development. The focus was the entire loan process, including application, approval, loan proceeds distribution, loan repayment processing, monitoring of activity, and delinquent collection activity.	Assurance	25

<i>Area</i>	<i>Status</i>	<i>Issues</i>	<i>Core Service</i>	<i>2014 Hours</i>
<b>Mayor's Office – Office of Performance Improvement</b>				
<b>LouieStat</b>	Ongoing	Observe meetings with department managers and the Mayor's Senior Leadership Team to identify potential risks and possible responses including but not limited to mitigation.	Consulting	50
<b>Strategic Planning Workgroup</b>	Ongoing	Participate in workgroups and retreats to provide input for the ongoing development of the departmental strategic plan.	Consulting	86
<b>Metro Council</b>				
<b>District 21 Financial Activity</b>	Complete	At the request of District 21 Councilman, performed a financial activity review to ensure public trust in his spending of discretionary funds appropriated to his district.	Integrity	420
<b>Ethics Tipline Complaints</b>	Complete	Provided the Government Accountability and Ethics Committee with information regarding the quantity of anonymous tipline complaints made against Louisville Metro Officers.	Consulting	5
<b>Financial Impact Statement – Minimum Wage Ordinance</b>	Complete	Provided information regarding preparation of financial impact statement for proposed minimum wage ordinance.	Consulting	75
<b>Public Works and Assets Audit History</b>	Complete	Provided the Government Accountability and Ethics Committee with a listing of all audits performed on Public Works and Assets since merger and any outstanding issues regarding such audits.	Consulting	14
<b>Use of Funds</b>	Complete	Provided recommendation on the appropriateness of using district operating funds to pay gratuity for food delivery at a public event.	Consulting	2

<i>Area</i>	<i>Status</i>	<i>Issues</i>	<i>Core Service</i>	<i>2014 Hours</i>
<b>Metro Parks</b>				
<b>Contractual Payment</b>	Complete	Assisted Metro Parks with reconciling a payment due to a sponsor for an amphitheater event to ensure they were calculating the payment appropriately.	Consulting	2
<b>Office of Management and Budget</b>				
<b>Neighborhood Development Fund Training</b>	Complete	Presented at training which provided nonprofit organizations with guidance on the application and approval process along with guidance on the financial reporting requirements in regards to the grant funds.	Consulting	6
<b>Police</b>				
<b>False Alarm Activity</b>	Ongoing	The focus of the review is the operational and fiscal administration of the activity. This includes how activity is processed, recorded, and monitored.	Assurance	329.50
<b>Narcotics Disposal</b>	Complete	Assisted in disposal process of approximately 27,000 pounds of narcotics evidence with no evidentiary value.	Assurance	174
<b>Public Health and Wellness</b>				
<b>Lead Case Restitution</b>	Ongoing	Monitored and processed restitution from fraud case. Restitution received is remitted quarterly to the grantor, the Federal Centers for Disease Control (CDC). For CY 2014, a total of \$1,050 was collected and remitted to the CDC. As of December 31, 2014, the total amount of restitution collected is \$22,763.12 with a remaining balance of \$6,395 due.	Integrity	5

<i>Area</i>	<i>Status</i>	<i>Issues</i>	<i>Core Service</i>	<i>2014 Hours</i>
<b>Cancer Screening Program</b>	Complete	Performed a review of Public Health and Wellness' KY Women's Cancer Screening Program. The primary focus of the audit was the operational and fiscal administration of the activity.	Assurance	468
<b>Ethics Tipline #119857566 and #119850439</b>	Complete	Performed an investigation of an allegation that Public Health and Wellness illegally charged an inspection fee to residents.	Integrity	28
<b>PeopleSoft Payroll Reports</b>	Complete	Discussed the need to review payroll reports and reconcile to the financial system to ensure accuracy. Payroll reports need to be signed and dated by the person performing the reconciliation.	Consulting	2
<b>Public Protection – Animal Services</b>				
<b>Capital Projects</b>	Complete	Performed a review of capital projects administered by Metro Animal Services. The primary focus was assessing expenditure compliance with applicable contractual terms and intended use of the appropriation.	Assurance	272
<b>Ethics Tipline #120074221</b>	Complete	Performed an investigation of an allegation that Metro Animal Services' senior management made the decision to use funds donated for surgery for a specific animal for other animals in the shelter.	Integrity	384
<b>Public Protection – Corrections</b>				
<b>Booking Fee Activity</b>	Complete	Performed a review of Metro Corrections' cash management activity as it relates to the application and collection of booking fees.	Assurance	285
<b>Booking Fee Activity</b>	Complete	Provided testing procedures used during our review of the department's booking fee activity. The purpose was to use information to perform testing on current data to determine accuracy and appropriateness.	Consulting	4

<i>Area</i>	<i>Status</i>	<i>Issues</i>	<i>Core Service</i>	<i>2014 Hours</i>
<b>Public Protection – Fire</b>				
<b>Capital Projects</b>	Complete	Assess expenditure compliance with the applicable contracts and intended use of the appropriation.	Assurance	33
<b>Public Works and Assets</b>				
<b>Capital Projects</b>	Ongoing	Assess expenditure compliance with the applicable contracts and intended use of the appropriation.	Assurance	353
<b>Fleet Management – Parts Costs</b>	Complete	The focus of the audit was the operational and fiscal administration of the activity. This audit was postponed due to a significant change in the procedures prior to the engagement.	Assurance	48
<b>Related Agencies – Office of Internal Audit</b>				
<b>2014 ACFE Compensation Survey</b>	Complete	Participated in survey designed to establish current compensation benchmarks for anti-fraud professionals.	Consulting	3
<b>Audit Committee Proposal</b>	Complete	Prepared and presented a proposal to Metro Council and the Mayor's office for the need to establish an audit committee to further strengthen the Office of Internal Audit's current governance and reporting structure.	Consulting	168
<b>Audit Findings and Recommendations</b>	Ongoing	Objective was to catalog previous audit programs and issues based on audit type (e.g. operational, expenditure).	Consulting	282
<b>Automated Work paper Solution</b>	Ongoing	Explore potential for use of SharePoint as an automated work paper solution to drive audit efficiency and effectiveness.	Consulting	62
<b>Enterprise Risk Management Framework</b>	Complete	Spoke with the Director of Internal Audit for Mecklenburg County, North Carolina about their role in the enterprise wide risk management framework which was recently implemented.	Consulting	3

<i>Area</i>	<i>Status</i>	<i>Issues</i>	<i>Core Service</i>	<i>2014 Hours</i>
<b>External Quality Assessment Review</b>	Complete	Professional standards require external assessment of our operations. External consultant engaged to perform review.	Complete	320
<b>FBI – Louisville Division</b>	Complete	Provided information on our audit process and a summary of the policies and procedures for the Office of Internal Audit.	Consulting	5
<b>IIA 2014 Compensation Study</b>	Complete	Participated in 2014 IIA annual compensation study which is viewed to be the most comprehensive analysis available on internal audit compensation trends.	Consulting	3
<b>Internal Audit Best Practices</b>	Complete	Shared and discussed best practices with peer auditors in Lexington, Bowling Green, and other municipalities nationwide at various times throughout the year.	Consulting	5
<b>Internal Policies and Procedures Update</b>	Complete	Objective was ensuring OIA policies and procedures are in conformance with professional standards, and revisions / updates made as needed.	Consulting	82
<b>Monthly Internal Control Tip</b>	Ongoing	Each month the Office of Internal Audit issued an internal control tip to help Louisville Metro manage risk and improve internal processes.	Consulting	50
<b>Strategic Planning / LouieStats</b>	Complete	Consulted with Miami-Dade County City Auditor regarding their involvement in the organization's strategic planning and performance measurement program.	Consulting	1
<b>Technology</b>				
<b>IT Audit History Report</b>	Complete	Provided a listing of all IT Audit Reports from 2010 through 2014. This included a summary of all IT audit issues and corresponding resolution status from each of the reports.	Consulting	25
<b>Risk Assessment</b>	Complete	An analysis of information technology risks for LMG (directly supported by Metro IT); obtained risk assessment/audit plan with most critical risks prioritized.	Technology	45