



Greg Fischer  
Mayor

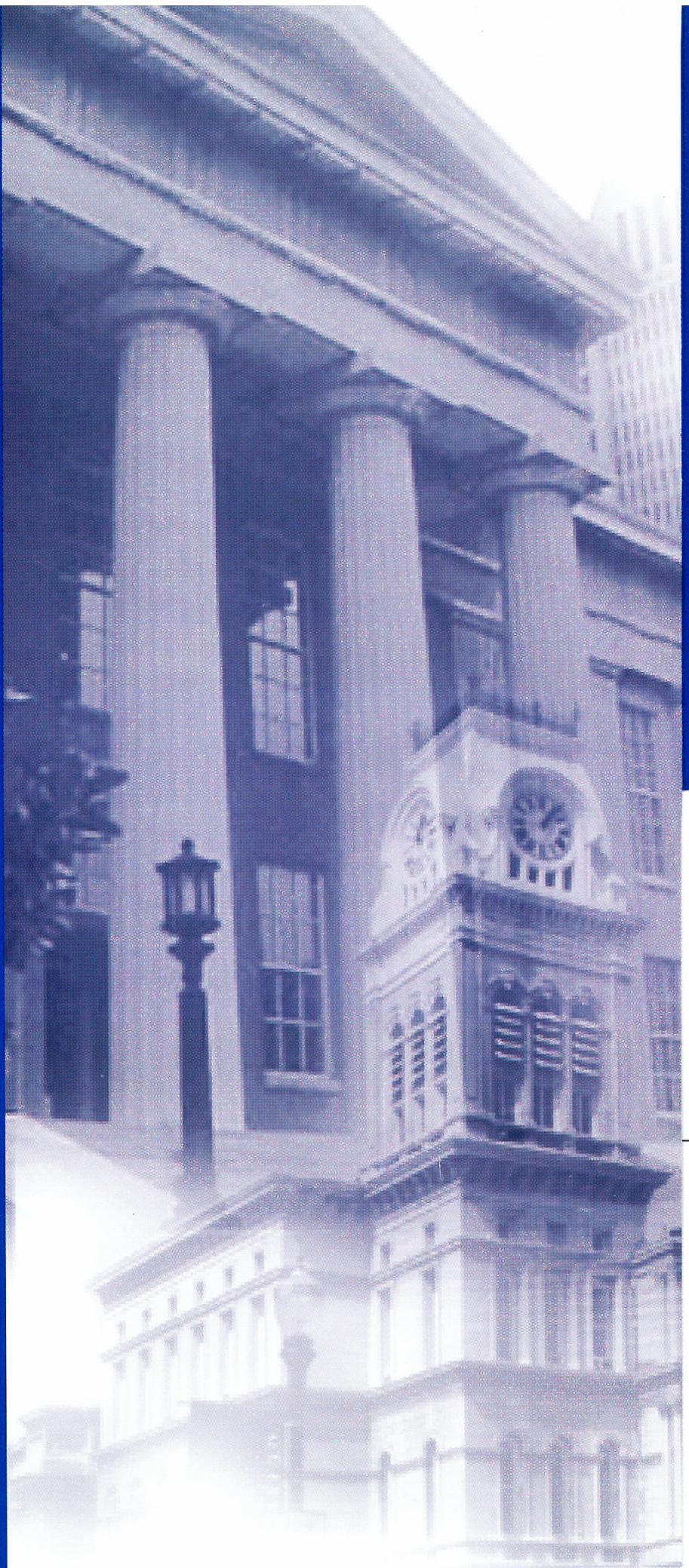
Louisville Metro Council

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

Licenses and Permits Revenue  
Activity



# Audit Report

Office of Internal Audit

## Louisville Metro Government

### Licenses and Permits Revenue Activity

April 2015



Louisville Metro Government

---

Licenses and Permits Revenue  
Activity

**Table of Contents**

**Executive Summary ..... 2**

**Transmittal Letter ..... 3**

    Introduction..... 3

    Scope..... 4

    Opinion ..... 4

    Internal Control Rating ..... 6

    Background..... 7

    Summary of Audit Results..... 7

**Observations and Recommendations ..... 9**

    1) Fee Billing and Activity Processing ..... 10

    2) Monitoring and Reconciliation..... 14

    3) General Administration ..... 18

## Executive Summary

### PROJECT TITLE

#### Louisville Metro Government Licenses and Permits – Revenue Activity

### OBJECTIVE AND SCOPE

The objective was to perform a review of Louisville Metro Government's Licenses and Permits Revenue Activity. The operating policies, procedures and records for the activity were reviewed, with a particular focus on processing revenue activity related to Alcoholic Beverage Control (ABC) and other specialty licenses and permits. The primary focus was the operational and fiscal administration of the activity, including how activity is processed, recorded, monitored, and reported. The objective was to obtain reasonable assurance that the risks are adequately mitigated through the internal control structure.

This was a consulting review resulting from a special request from Codes and Regulations. The review included activity processed, prior to July 1, 2014, through the Codes and Regulations' newly implemented multifunctional revenue processing system. Prior to July 1, 2014, Codes and Regulations was responsible for processing license and permit activity related to ABC, specialty, and construction activity. Since July 1, 2014, the newly formed Louisville Metro department, Develop Louisville, has been responsible for permit activity related to construction (i.e. HVAC, electric) and Public Works and Assets has been responsible for permit activity related to right of ways. The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.

### INTERNAL CONTROL ASSESSMENT

#### Needs Improvement

### RESULTS

Opportunities exist for improving the internal control structure. Examples include the following.

- **Fee Billing and Activity Processing.** There were issues noted regarding fee billing and the processing of activity.
  - There were instances in which the fees for various licenses and permits did not agree to the fees that should have been billed based on established criteria.
  - There were instances in which the quantity of supplemental bars approved per the application documentation did not agree to the quantity of supplemental bars issued.
  - There were instances in which the license expiration date was inaccurate.
- **Monitoring and Reconciliation.** A manual and labor intensive method is used to distribute revenue from a clearing account to the proper financial system accounts, which increases the risk of error.
- **General Administration.** There are no documented policies and procedures to guide personnel in processing applications and subsequently issuing licenses and permits.



OFFICE OF INTERNAL AUDIT  
LOUISVILLE, KENTUCKY

GREG FISCHER  
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

DAVID TANDY  
PRESIDENT METRO COUNCIL

### **Transmittal Letter**

April 1, 2015

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

**Subject: Audit of Louisville Metro Government's Licenses and Permits – Revenue Activity**

#### **Introduction**

As requested, an audit of Louisville Metro Government's licenses and permits – revenue activity was performed. The objective was to perform a review of the operating policies, procedures and records for the activity, with a particular focus on processing revenue activity related to Alcoholic Beverage Control (ABC) and other specialty licenses and permits. The primary focus was the operational and fiscal administration of the activity, including how activity is processed, recorded, monitored, and reported. The objective was to obtain reasonable assurance that the risks are adequately mitigated through the internal control structure.

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**

A thorough understanding of the licenses and permits revenue activity was obtained in order to evaluate the internal control structure. This was achieved through interviews of key personnel and examination of supporting documentation. This included obtaining an understanding of the policies and procedures for processing, recording, monitoring, reconciling, and reporting activity. Testing of activity was also performed to determine the effectiveness of controls.

The focus of the review was license and permit revenue activity processed based on procedures employed by Codes and Regulations prior to July 1, 2014. As of July 1, 2014, Codes and Regulations were not responsible for processing permit activity related to construction (i.e. HVAC, electric) and right of ways. The newly formed department, Develop Louisville, is responsible for permit activity related to construction and Public Works and Assets is responsible for permit activity related to right of ways.

The review included activity processed through the newly implemented multifunctional licenses and permit's revenue processing system. Testing was performed on a sample of transactions that occurred during fiscal year 2014 (July 2013 through June 2014). The review included activity from this twelve month period to ensure a focus on the revenue activity occurring during and immediately after the implementation of the revenue processing system upgrade on July 1, 2013. This review did not include a detailed assessment of the technical aspects of the revenue processing system, as the Office of Internal Audit does not have the expertise necessary to perform a technical review of the system.

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 Louisville Metro Government's licenses and permits – revenue activity needs improvement. The internal control rating is on page 6 of this report. The rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Fee Billing and Activity Processing.** There were issues noted regarding fee billing and the processing of activity.
  - There were instances in which the fees for various licenses and permits did not agree to the fees that should have been billed based on established criteria.
  - There were instances in which the quantity of supplemental bars approved per the application documentation did not agree to the quantity of supplemental bars issued.

- There were instances in which license expiration dates were inaccurate, based on the criteria used to assign expiration dates.
- **Monitoring and Reconciliation.** There were issues noted regarding monitoring and reconciliation.
  - A manual and labor intensive method is used to distribute revenue from a clearing account to the proper financial system accounts.
  - Daily cash drawer reconciliations are not signed by both the cashier and supervisor to signify that both the cashier and a supervisor have jointly performed the reconciliation.
- **General Administration.** There were issues noted regarding the general administration of the activity.
  - There are no documented policies and procedures to guide personnel in processing applications and subsequently issuing licenses and permits.
  - There were instances of missing or incomplete license file documentation.

### Corrective Action Plan

The report was shared with Codes and Regulations, Develop Louisville, the Office of Management and Budget, and Public Works and Assets. Each entity was asked to respond to their section. It is important to recognize the necessity of this approach, primarily because of the cross-departmental nature of the licenses and permits revenue activity. Unilateral actions by one entity would not adequately address the issues noted.

Each entity's corrective action plans are included in their respective Observations and Recommendations section of this report. The corrective action plans demonstrate a commitment to addressing the issues noted. The Office of Internal Audit will continue to work with all entities to ensure the actions taken are effective in addressing the issues noted.

Sincerely,

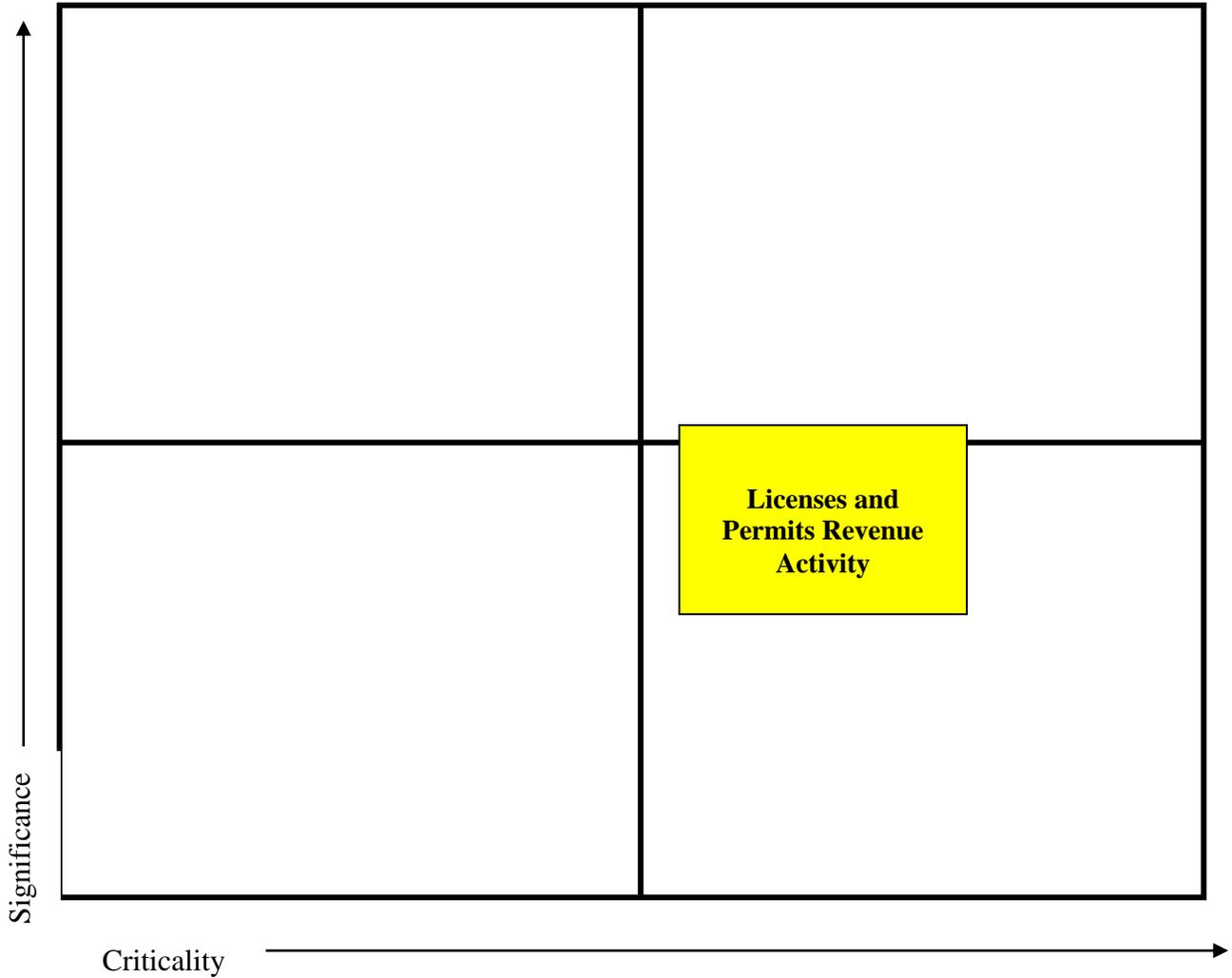


---

Ingram Quick, CIA, CFE  
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee  
Louisville Metro Council President  
Codes and Regulations' Director  
Louisville Metro External Auditors  
Develop Louisville Director  
Office of Management and Budget Director  
Public Works and Assets Director

**Internal Control Rating**



<u>Legend</u>			
<b><u>Criteria</u></b>	<b><u>Satisfactory</u></b>	<b><u>Needs Improvement</u></b>	<b><u>Inadequate</u></b>
<b><i>Issues</i></b>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<b><i>Controls</i></b>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<b><i>Policy Compliance</i></b>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<b><i>Image</i></b>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<b><i>Corrective Action</i></b>	May be necessary.	Prompt.	Immediate.

## **Background**

Codes and Regulations perform regulatory licensing activities for establishments serving or selling alcoholic beverages. Licensing activities are also performed for specialty industries and events. Codes and Regulations has the administrative responsibility to ensure compliance with all local, state and federal laws prior to the issuance or renewal of any license or permit. During the review period, fiscal year 2014, Codes and Regulations was also responsible for the issuance, renewal, and administration of permitting relating to construction (i.e. HVAC, electric). Since July 1, 2014, the newly formed Louisville Metro department, Develop Louisville, has been responsible for permit activity related to construction (i.e. HVAC, electric) and Public Works and Assets has been responsible for permit activity related to right of ways.

Codes and Regulations uses Hansen computer software to process its licensing and permitting activity. Hansen is a multifunctional revenue processing system used by several departments within Louisville Metro Government to store and retrieve data pertaining to geographical information, work orders, permitting, licensing and inspections. In July 2013, Codes and Regulations implemented an upgrade to the revenue processing system. This was intended to compliment the functionality of the existing software and provide added accountability for revenue management. Much of the revenue procedures were developed in-house based on the understood functionality of the Hansen system.

Codes and Regulations generates revenue through license fees, based on established guidelines (e.g., State statute and Louisville Metro ordinance), and civil penalty fines for violations of regulations. Codes and Regulations generated approximate revenue receipts of \$13.9 million during fiscal year 2014.

This audit is the result of a special request from Codes and Regulations. After the implementation of the upgrade to the revenue processing system, Codes and Regulations' officials became aware of an increase in erroneous processing. In an effort to determine the cause, an audit of the license and permit revenue activity occurring during and immediately after the implementation of the revenue processing system upgrade was requested. Codes and Regulations should be commended for proactively requesting the review.

## **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 previously conducted a review of Codes and Regulations' revenue administration in November 2008. A review of alcoholic beverage license revenue was also conducted in May of 2006 and 2003. 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 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 preliminary draft report was issued to Codes and Regulations on January 14, 2015. A final draft report was issued to Codes and Regulations, Develop Louisville, the Office of Management and Budget, and Public Works and Assets on February 17, 2015.

The respective views of Codes and Regulations, Develop Louisville, the Office of Management and Budget, and Public Works and Assets' officials were received 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 corrective action responses were provided within this required timeframe.

## Observations and Recommendations

### Scope and Methodology

As a special request from Codes and Regulations, the Office of Internal Audit conducted a review of the licenses and permits revenue activity. A thorough understanding of the operating policies, procedures and records for the activity was obtained through interviews of key personnel and examination of supporting documentation. Particular attention was given to revenue activity from Electrical, Right of Way, and Alcoholic Beverages licensing and permitting. The primary focus was on the fiscal and operational administration of the activity, to include how the activity is processed, recorded, monitored, and reported. The objective is to obtain assurance that the risks are adequately mitigated through the internal controls process.

Revenue activity, consisting primarily of fees related to license and permit issuance and renewal was tested using a sampling approach. Testing was performed on a sample of issuances and renewals from each of the 20 types of license and permits administered by Codes and Regulations. During the review period, July 2013 through June 2014, Louisville Metro Government issued or renewed approximately 41,000 licenses and permits. Samples, consisting of a total of approximately 1,100 issuances and renewals were selected for testing compliance with policies and procedures as well as accuracy. A sample of 12 days' revenue receipts was tested to verify accuracy.

The examination would not reveal all issues because it is based on selective review of data.

### Observations

The overall internal control structure needs improvement. Specific details and results of the review are as follows.

- 1) Fee Billing and Activity Processing
- 2) Monitoring and Reconciliation
- 3) General Administration

Details of these begin on the following page.

## **1) Fee Billing and Activity Processing**

Some issues were noted with fee billing and activity processing of licenses and permits. Specifics include the following.

- **Alcohol, Beverage Control (ABC) License Billing Accuracy.** New license fees are based on a combination of the type of license issued and the date of issuance. There were multiple instances in which the new license fees billed and subsequently paid did not agree to the fees that should have been billed based on the license type and issue date. The incorrect billing is likely the result of a manual work around used to generate and assign fees. The manual work around is applied inconsistently and often inaccurately. The licenses and permits' revenue processing system was not consistently used to automate the generation of fees. The following issues were noted.
  - In 18 of 73 instances, new license applicants were inaccurately billed. Details include the following.
    - In 11 instances, due to the date of license issuance, the applicant should have been billed for half a year. However, the applicants were inaccurately billed for a full year.
    - In five instances the discrepancy was the result of an inaccurate license type, which resulted in inaccurate billing.
    - In two instances the discrepancy was the result of a combination of inaccurate license types, an erroneous refund, and inaccurate billing for a half year rather than a full year based on the issue date.
- **Supplemental Bar Billing Accuracy.** License endorsements for supplemental bars are billed at a rate of \$1,600 per bar for up to 5 supplemental bars. Alternatively, supplemental bars for private clubs are billed at a rate of \$300 for each supplemental bar. Discrepancies are likely due to a manual work around used to display supplemental bars and related fees on private clubs accounts. The manual work around is applied inconsistently and often inaccurately. The functionality of the revenue processing system was not consistently used to accurately display supplemental bars and related fees on private club accounts.
  - There were 12 of 91 instances, in which licensees were inaccurately billed for supplemental bars. Of these instances, six were related to private clubs.
- **Other Billing Issues.** Other billing issues include the following:
  - There were 9 of 20 instances, in which Street Furniture licenses were billed at a rate that was not in accordance with the related Louisville Metro Ordinance. The result is a net under billing to customers.
  - There was 1 of 678 instances, in which a right of way permit was not included on the monthly invoice. The result is the customer was under billed.
  - Manual updates are applied to the resolution status of issues within the licenses and permits' revenue processing system. During the period under review the revenue processing system was not used to accurately automate stage progression. The inherent risk of human error stemming from the manual stage progression coupled with the absence of preventive or detective controls increases the risk of error.
- **ABC License Supplemental Bars.** Supplemental bars may be requested during the initial application process or at a subsequent date. A change in the active status of the

supplemental bar should be documented and maintained in the applicant file. There were multiple instances in which there was a discrepancy between the quantity of supplemental bars requested and approved per the application documentation and the quantity of supplemental bars issued. The following issues were noted.

- In 6 of 91 instances, the quantity of supplemental bars requested and approved per the application documentation did not agree to the quantity of supplemental bars reflected in the licenses and permits' revenue processing system. Documentation regarding a change in the active status of the supplemental bars could not be located.
  - In 1 of 91 instances, the licensee requested and was approved for 11 supplemental bars. However, there were only four licenses issued. Documentation regarding a change in the active status of the supplemental bars could not be located.
- **ABC License Renewal Activity.** The expiration date is generally based on the zip code of the licensed entity. All ABC licenses in a specific zip code have the same expiration date unless the applicant formally requests an alternative expiration date.
    - In 9 of 380 instances, the license expiration date was inaccurate based the criteria used to assign expiration dates. As a result, the license will remain active for an unauthorized period of time. Further, the inaccurate expiration date increases the risk of circumventing the renewal process, which is likely to cause a reduction in renewal fees. The erroneous expiration date is likely due to the manual entry of expiration dates into the system. The manual entry of expiration dates is applied inconsistently and often inaccurately.

### **Recommendations**

Appropriate personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ Applicable staff should consult with the licenses and permits' revenue processing system vendor, to ensure that full functionality of the revenue processing system is able to be achieved. Further, staff should work with the software vendor to resolve issues regarding the capabilities of the system.
- ✓ Applicable staff should consult with licenses and permits' revenue processing system programming and coding specialist to determine which, if any system revisions can be implemented immediately. Revisions for consideration include the following.
  - Consider the inclusion of a fee schedule for Street Furniture within the revenue processing system. This would allow staff to use the functionality of the system to select the proper fees, in accordance with the Ordinance.
  - Consider the inclusion of an option for fees related to supplemental bars in private clubs. All private clubs that have supplemental bars should be reviewed and the proper fees should be added.
- ✓ Ensure that each applicant receives an itemized receipt when paying the initial license fees as well as when renewing the license. The itemized receipt should provide detail regarding the type of license, endorsements issued and the fees related to each. The receipt should also provide detail regarding fees related to a full year or half year.

This would give the applicant the information necessary to determine if they have been billed accurately.

- ✓ Revise the checklist used to process new license applications to include details regarding the fees to be charged for each license. This would include the license type and endorsement as well as half year/full year designation. These would provide a way for staff to perform a self-review of the manually calculated fees.
- ✓ Revisions to improve deficiencies within licenses and permits' revenue processing system may require a significant amount of time before changes can be implemented. It may be necessary to continue the use of manual adjustments, temporarily, until a more permanent fix is available. In an effort to improve the consistency and accuracy of manual adjustments, policies and procedures should be developed to guide staff in the application of manual adjustments. Policies and procedures should include the following.
  - Policies and procedures must be formally documented and distributed to applicable staff.
  - Policies and procedures must be clear and concise and accurately describe the subject(s) addressed (i.e. Fee Determination, Expiration Date Determination, etc.)
  - Policies and procedures must clearly define responsibilities and identify who has permission to manually override the revenue processing system.
  - Policies and procedures must clearly define when it is permissible to manually override the revenue processing system.
- ✓ On a periodic basis (i.e. monthly, quarterly), applicable manual adjustments (fee, expiration dates, etc.) should be reviewed for accuracy. A periodic review would serve as a method for detecting errors. It could also serve as a tool to motivate staff to practice due professional care in processing manual adjustments.
- ✓ The details of inaccurate fee billing and activity processing have been provided to the responsible agencies (Codes and Regulations, Develop Louisville and Public Works and Assets) for review and determination of the extent of any remedial action needed.

### **Codes and Regulations Corrective Action Plan**

Codes and Regulations concurs with and will implement the applicable recommendations related to the fee billing and activity processing. In addition, Codes and Regulations stated the following:

We will have a minimum of 2 staff, supervisor and L&P assistant, consult with our representative with the Department of Information Technology, who has been in talks with our Vendor to ensure functionality and capabilities of the system. An update of the current Version of Hansen will soon be implemented. We have intensively tested the newer versions functionality to ensure that all system errors from the current version have been reported to the vendor. When consulting with our Information Technology Representative, each L&P staff will be attached to correspondence for awareness of any issues related to the revenue processing system.

The private clubs supplemental bar endorsement and proper fees have been reported to coding specialist and added to the updated version of Hansen.

Currently, each applicant receives itemized receipts when paying the initial license fees. We will begin to insure applicants/licenses receive itemized receipts for renewals as well via postage. We will work with Cashiering and our Information Technology Representative to have half year full years itemizations added to receipts.

The check list used by staff has been updated to include half year and full year fees along with any manual adjustments made that will alter fees systematically generated.

We will continue to use manual adjustments when needed with suggested procedures from the revenue processing system vendor. With these procedures clearly defined, each license assistant and supervisor will have permission to make manual expiration date and fee overrides to the system that will be documented through a "LOG" within the software. We have also updated our License "check list" to indicate if there have been any manual overrides in Hansen to be reviewed by the "Approver" prior to being submitted to the ABC Administrator. The Metro fee's chart and fee schedule have been updated for clarification of fees and local expiration dates. Each application with manual adjustments will be charted for review to assure correct system processing.

Monthly, the Supervisor will review manual adjustments made to detect inaccurate billing, systematic errors, and staff errors. Forty-five days prior to each ABC license expiration date, each license with supplemental bars and documented manual adjustments will be checked for proper fees prior to renewal notice being sent to licensee.

### **Develop Louisville Corrective Action Plan**

Develop Louisville concurs with and will implement the applicable recommendations related to the fee billing and activity processing. In addition, Develop Louisville stated the following:

The report addresses implementing revisions into the system programming regarding fee schedules. The specific concerns are Street Furniture and Supplemental Bars, these will be addressed by the Department of Public Works and Codes and Regulations, respectively.

The report discusses the receipts issued to customers being itemized. Currently receipts are itemized based on the current fee schedule that is implemented in the system. Fees specifying either a full or half year, and other itemizations that are needed, would be coordinated between affected departments and MTS as the intermediary to the system vendor.

The report offers the suggestion of a checklist being created for each license type to include applicable fee details. This recommendation is specific to the department of Codes and Regulations, however this will be included in updated documents pertaining to the division of Construction Review referencing the contractor license types and necessary documentation required as well as the fees.

The report addresses revenue processing deficiencies and manual adjustments. These issues will be addressed in updated policy and procedures and distributed to all staff. All departments addressed are united in the single cashier location; responsibility will be determined with regards to cashiering functions that are not payment collection. This will require time and coordination between all departments and applicable staff.

Inaccurate fee billing will be addressed as remedial activity will be pursued as appropriate to the division of Construction Review (Construction Review).

## **2) Monitoring and Reconciliation**

Some issues related to the cashiering process of the licenses and permits' revenue activity were noted.

- **Recording Cashiering Activity.** The licenses and permits' revenue processing system was not used to automate distribution of revenues to the correct financial system account based on the type of revenue. As a result the revenues are manually distributed to the proper financial system account. The inherent risk of human error stemming from the manual revenue distribution coupled with the absence of controls to prevent and/or detect errors increase the risk that revenues will be inaccurately recorded.
  - For 2 of 28 various revenue accounts reviewed, the revenue activity was accurately included in Louisville Metro Government's financial system as revenue. However, it could not be determined if revenue was posted in the correct account, as the activity could not be agreed to any system or manually generated documentation for revenues earned during the same period.  
*Similar problems were noted during the previous audit.*
- **Daily Cashiering Activity.** Cashiering activity is recorded and documented by way of automated receipts and reports from licenses and permits' revenue processing system. There were issues regarding the accuracy and completeness of cashiering activity. Specifics include the following:
  - For 2 of 25 days reviewed, the end of day cash count was not properly reconciled to the revenue processing system generated report.
    - For one of the two days, a formal reconciliation or alternative documentation regarding the performance of the end of day cash count could not be located. As a result, the Office of Internal Audit could not verify the amount of the cash on hand or if it was reconciled to the transactions recorded within the revenue processing system during the same period.
    - For one of the two days, there was an unidentified and unresolved difference between the receipts on hand and the transactions recorded within the revenue processing system. The amount of the difference is \$75.
  - For 3 of 25 days, the reconciliation was not signed by the cashier and the supervisor. Both signatures are necessary to signify that both the cashier and a supervisor have jointly performed the reconciliation and both agree that receipts on hand have been reconciled to the transactions recorded within the revenue processing system.
  - Cashiers have the ability to view system receipt information and activity reports from the revenue processing system prior to the daily close out. This allows the cashier to be aware of revenue receipt balances prior to its official closing, and could result in an individual making unauthorized adjustments to ensure actual cash on hand agree to system reports.  
*Similar problems were noted during the previous audit.*
- **Credit Card Transactions.** Credit card transactions are completed on site by the cashiers as well as by the customer by way of on-line transactions. All credit card transactions are processed through PayPal. Reconciliations are performed to ensure PayPal transactions agree to bank records. However, a reconciliation to ensure PayPal transactions agree to the revenue processing system records does not occur.

## **Recommendations**

Appropriate personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ A major component of any reporting system is proper monitoring and reconciliation. It is imperative that administrative staff provide regular review of individual transactions for appropriateness, completeness, and adherence to requirements, along with monitoring of system reports. Ultimately, this will help ensure the reliability of information for management analysis and help with providing and effective audit trail.
- ✓ Applicable staff should consult with licenses and permits' revenue processing system vendor, to ensure that full functionality of the revenue processing system is able to be achieved. Further, staff should work with the software vendor to resolve issues regarding accuracy of reports.
- ✓ Revise the process for distributing revenues to appropriate financial accounts. Ideally, daily journal vouchers should be used to distribute funds directly to appropriate financial accounts, based on the transactions that occurred during the day. This process is more efficient in that it allows for a more transparent audit trail as well as more accurate and timely accounting.
- ✓ Persons assigned responsibility for cash management activity, including but not limited to cashiering, should be fully trained on all revenue processing system operations as well as requirements for maintaining manual logs, reports, and receipts. All persons should be provided with the relevant policy and procedures for administering the activity.
- ✓ Determine whether the revenue processing system has security features to prohibit cashier access to receipt information / activity reports. If so, these controls should be activated. In the absence of these security features, future system modifications should be considered to improve internal controls. Compensating controls (e.g., unannounced cash counts compared to system activity) could be performed to help ensure the accuracy of revenue receipts.
- ✓ Cash reconciliation should be completed by someone other than the cashier and conducted in the presence of both the cashier and supervisor. Additionally, the reconciliation documentation should contain both signatures (cashier/supervisor) indicating agreement from both parties involved in the exchange of funds.
- ✓ Applicable staff should consider performing a reconciliation of the credit card activity within PayPal to the applicable transaction detail within the revenue processing system on a periodic basis (i.e. at least monthly). By performing the reconciliation, any discrepancies can be quickly detected and resolved. In performing the reconciliation, applicable personnel should consider the following:
  - The credit card activity within PayPal should agree to transaction detail. Any differences should be investigated and resolved.
  - All reconciliations should be subject to a formal review, evidenced by way of the reviewer signature and the date of review.

## **Develop Louisville Corrective Action Plan**

Develop Louisville concurs with and will implement the applicable recommendations related to monitoring and reconciliation. In addition, Develop Louisville stated the following:

Construction Review is not sole user of the system or the primary contact for Metro. MTS acts as intermediary regarding all functionality across Metro, as the department we do not have direct contact or control with system vendor. MTS is also the provider of Crystal reporting for the system. The cashiering reports used do reflect account codes for the various departments served that to our knowledge is accurate of where funds are deposited. Staff is also in constant communication with OMB to verify various transactions and account information. OMB also places requirements on formatting of cashier reports. - System is set to be upgraded 3-23-2015 – Impacts of this will be determined on an ongoing basis.

It is possible to see in the system and itemized on the daily cashier reports the account code associated with each transaction type, based on the department and specific transaction type. The department cooperates with OMB when discrepancies occur regarding revenues posted to specific accounts.

All persons are or will be trained on basic cashier functions including logs, reports and receipts. Only persons in full time cashier function will be trained on specific cashier functions including but not limited to refunds of all types, voids, wrecking license processing, returned checks and citation fees. This is implemented to maintain consistency with personnel. As updated policies and procedures are developed, further cross training will occur to educate of all employees of changes.

Cashiers do have the ability to view only their daily totals; this is to ensure all amounts are correct as they close their daily drawers. In the event an erroneous transaction does exist only the supervisor has the ability to make any manual adjustments, other than voiding an entire transaction. The daily reports do reflect any transactions that were voided, and both usernames in Hansen for cashier and supervisor noting the amounts and transactions were counted and checked twice.

Daily reconciliations are conducted by both the cashier and supervisor, and both signatures are reflected on the reports. This has been protocol at least since implementation of the Hansen 8 program. Regarding 2 of 25 days mentioned above, that cannot be addressed or researched without specific date information.

A report is in the creation process to reflect credit card payments made online and collected via PayPal. This reconciliation will be performed by the supervisor and OMB once this is available. Per OMB policy, cashiers do not have access to view transactions in any capacity directly in PayPal.

## **Office of Management and Budget Corrective Action Plan**

The Office of Management and Budget did not concur and will not implement the recommendation regarding using daily journal vouchers to distribute funds directly to appropriate financial accounts on a daily basis. The Office of Management and Budget stated the following:

The Cash Management division of OMB verifies the cashier transaction reports and cash audit paperwork to the bank on a daily basis. The daily activity is logged on a spreadsheet that feeds the journal voucher to post the revenue activity to the appropriate cost centers in Metro's financial system ("LeAP"). This information is compiled for one month and one journal voucher to post the revenue is processed at the end of the month. A daily review of the bank activity does not reconcile to the daily cashier activity since the bank activity is reflective of cashier activity that took place 1-2 days prior. A monthly review allows the opportunity to account for timing differences and reconcile activity between the cashier system, the bank account, and LeAP. Cash Management actually implemented the process identified above in January. However, we continue to reconcile for corrections needed for July - December of this Fiscal Year. We anticipate full reconciliation by the end of this month, and will remain going forward with monthly journal vouchers and reconciliations.

While OMB concurs with the recommendation that all personnel responsible for cash operations activities should be adequately trained on the use of systems, logs and reports; OMB believes it is important to note that the OMB Cash Management ("CM") staff is responsible for the revenue distribution function and is not responsible for the cashiering activities. CM staff continues to train on all applicable systems, logs and reports related to the functions we perform and will document policy and procedure as appropriate. CM staff also continues to work with MTS staff to identify improvements in reporting out of Hansen to aid in efficiency of reconciliation. In addition, CM staff will be spending a few days with the Codes and Regs (C&R) cashiers in late March to observe and train on the cashiering functions to broaden our knowledge. CM will also share recommendations and guidance with C&R cashiers in order to promote a broader understanding of function performed by both groups. C&R cashiering management will need to indicate if they can implement this Corrective Action for the cashiering functions. It is also important to note that the Hansen cashiering system does not have the capability to integrate with the financial system and automatically distribute revenue to the appropriate cost centers. This is consistent with all Metro Agency operating systems. It's not that the functionality wasn't used, it does not exist.

Since January, 2015, a review of credit card activity has been incorporated into the monthly reconciliation and revenue distribution process. Paypal reports are reconciled against bank and Hansen activity reports; however there are noted discrepancies between Hansen Credit Card info and Paypal/bank info. CM continues to work with MTS to improve the accuracy of information provided by Hansen.

### **3) General Administration**

Some issues were noted with the general administration of the licenses and permits revenue activity.

- **Policies and Procedures.** There are no documented policies and procedures to guide personnel in processing applications and subsequently issuing licenses and permits. A general best practice is to have documented policies and procedures available to staff. The absence of documented policies and procedures increases the risk of erroneous and/or inconsistent processing. Further, the absence of documented policies and procedures increases the threat to business continuity.
  - In 2 of 15 instances, documentation was not included in the application file. Documentation serving as evidence that the applicant met all requirements for license issuance is maintained in the application file. Although the Office of Internal Audit was able to confirm compliance by way of an outside source, the inclusion of required documentation is inconsistent. Inconsistent documentation coupled with the lack of documented policies and procedures greatly increase the risk of erroneous processing.  
*Similar problems were noted during the previous audit.*

### **Recommendations**

Appropriate personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ A written internal policies and procedures manual should be developed to guide appropriate personnel in the administration of revenue activity. This manual should include sufficient detail for each job duty performed, copies of forms used, policies followed in processing activity, and processing dates and deadlines. The internal policy and procedures manual should be distributed to all applicable personnel. In addition, key personnel should be trained to help ensure consistent adherence to the requirements. The internal policies and procedures should reflect the most current information and be updated periodically.

### **Codes and Regulations Corrective Action Plan**

Codes and Regulations concurs with and will implement the recommendation related to general administration. In addition, Codes and Regulations stated the following:

Our detailed internal policies and procedures manual is currently in the process of being created for personnel guidance in the administration of revenue activity to decrease the risk of erroneous and inconsistent processing. Our procedures manual will include the details of each job duty performed, copies of forms used, and processing dates and deadlines.

### **Develop Louisville Corrective Action Plan**

Develop Louisville concurs with and will implement the recommendation related to general administration. In addition, Develop Louisville stated the following:

Construction Review – A written internal policies and procedures document dated 2012 is in place under the department name of Codes & Regulations, Division of Inspections, Permits & Licenses. This document is being updated to reflect current Develop Louisville information and update division information and processes where necessary. This updated document will include information specific to the cashiering function and will address revenue processing deficiencies and manual adjustments that are made when necessary. These will be presented uniformly to respective departments as applicable to specific department functions.

### **Public Works and Assets Corrective Action Plan**

Public Works and Assets concurs with and will implement the recommendation related to general administration.

Office of Internal Audit

Phone: 502.574.3291

[www.louisvilleky.gov/InternalAudit/](http://www.louisvilleky.gov/InternalAudit/)