Office of Internal Audit

FY 2016 Audit Plan

September 2015

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.

Audit Plan

Office of Internal Audit

Fiscal Year 2016 Audit Plan

September 2015

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LOUISVILLE, KENTUCKY

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Transmittal Letter

September 8, 2015

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

Subject: Fiscal Year 2016 Audit Plan

Introduction

Enclosed is the fiscal year 2016 audit plan for the Office of Internal Audit. This outlines the activities where internal audit resources will be dedicated. Professional internal audit standards, as well as the Office of Internal Audit Charter (Metro Ordinance §30.35), require the preparation of an audit plan. In accordance with protocol, this plan does not require action by the Mayor or the Metro Council Government Accountability and Ethics Committee.

Methodology

The framework for the methodology, and the actual process for developing the audit plan, is explained in the following.

Framework

This plan was developed using a risk-based methodology. The methodology incorporates the COSO - Enterprise Risk Management framework. This is a

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risk model commonly used in the internal audit profession. This approach allows for the evaluation of Louisville Metro Departments as well as major business processes in a systematic, consistent framework. By using this approach, the Office of Internal Audit (OIA) is better able to dedicate resources that help ensure Louisville Metro Government achieves its strategic objectives.

Process

The following details the process for developing the audit plan.

1. **Identify Louisville Metro's Audit Universe.** All audit units (e.g., programs, processes) for Louisville Metro Government were identified. These units constitute the audit universe for Louisville Metro Government. The identification was achieved using a variety of sources, including organizational charts, institutional knowledge, financial system data, enterprise policies and procedures, budgetary documents, ethics tipline activity reports, and input from key stakeholders.
   - There were a total of 1,206 auditable units identified.

2. **Stratify Audit Universe.** Louisville Metro's audit universe was stratified to identify the units that pertain to the Office of Internal Audit and those that should be covered by other auditors (e.g., external, state, federal). The Office of Internal Audit's core service for each pertinent audit unit was determined.
   - The OIA's audit universe consists of 654 audit units.

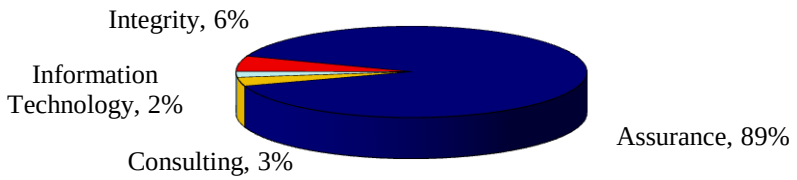
3. **Risk Assessment.** The risk assessment approach is based on the COSO - Enterprise Risk Management framework. Eight different risk factors were used to evaluate each audit unit in the Office of Internal Audit's universe. The factors included items such as prior audit results, complexity of operations, and relevance to strategic objectives. The units were ranked as high, medium, or low risk.
   - There were a total of 270 audit units ranked as high risk.

4. **Identification of Major Risks.** Louisville Metro's major risks, from an internal audit perspective, were identified. The identification of these risks helps ensure resources are allocated to the most critical areas and processes.
   - The major risks identified are in Table 1.

Table 1 - Louisville Metro Government's Major Risks		
Governance	**Financial**	**Human Resources**
• Transition management • Business strategy • Organizational structure • Ethical culture and environment • Independent oversight • Accountability and transparency • Compliance with laws and regulations • Performance metrics	• Financial management and practices • Fiscal sustainability • Business strategy assumptions • Reliability and transparency • Accountability • Safeguarding of assets • Fraud • Debt management	• Change management and culture • Capacity • Knowledge, skills and abilities • Succession planning • Training • Intergenerational relationships • Compensation policies • Health and safety • Health care mandates
Operational	**External**	**Information Technology**
• Capacity management • Organizational change • Performance management and metrics • Quality of services • Operational synergies • Complexity of operations • Communication • Reputation • Business Continuity Planning • Process improvement	• Fiscal and economic conditions • Customer expectations • Energy availability and cost • Capital availability • Financial markets • Regulatory environment and mandates • Unemployment and underemployment • Severe weather event • Supply chain failure • Reputational PR disaster	• Maximizing benefits of system functionalities • Business data integrity and validity • Data Security • Mobile Devices • Business interruption • Privacy of customer information • Document management program • Social networks

5. **Office of Internal Audit Resources.** The available resources (i.e., staff hours) for the Office of Internal Audit were determined. Available project hours were calculated after adjusting for staff's paid leave time, required training, and administrative tasks. The target utilization rate for audit staff is 75%. The determination of available resources is based on a full staff complement. The available resources were allocated by core service as illustrated in Chart 1.

Chart 1 – Available Audit Resources (by Core Service)



- It should be noted that Information Technology requires the assistance of external consultants. The allocation represents OIA staff hours only, not the financial resources for the IT audit consultants.

6. **Allocation of OIA Resources.** The Office of Internal Audit's resources were allocated to each of the projects ranked as high risk. This was done in order to provide complete coverage of these projects.

   - The audit cycle required to provide coverage of all high risk areas is approximately 9.4 years.

7. **Audit Plan Completion.** The final audit plan was developed by assigning the audit units (with OIA resources allocated) to a specific fiscal year. The capacity and capability of the Office of Internal Audit was evaluated to ensure the project can be performed. In some cases, such as Information Technology services, external consultants are required. In developing the final plan, the following factors were considered:

   - Alignment with Metro Government's core strategic objectives
   - Enterprise-wide processes and tasks
   - Mitigation of Louisville Metro Government's major risks
   - Impact on service delivery efforts
   - Coverage of all strategic objectives and Louisville Metro Departments

Audit Plan

The fiscal year 2016 audit plan is presented in the following section of this document. It is important to note that the audit plan is a flexible document that is intended to allow for changes as circumstances warrant. While the Office of Internal Audit strives to follow the plan, unforeseen circumstances require the ability to act quickly and reallocate resources appropriately.

- A summary of resource allocation by Louisville Metro Government Department is in Chart 2 in the Appendix.

Conclusion

The audit plan demonstrates the Office of Internal Audit's commitment to its mission of providing value added internal auditing services as well as its commitment to continuous improvement of services. These services ultimately help Louisville Metro Government achieve its core strategic objectives. In an effort to leverage resources to provide quality professional internal audit services, we have limited the scope of work to what we can realistically accomplish with the staff resources available.

If you have any questions, or wish to discuss any of these items in further detail, please let me know.

Sincerely,

May R. Porter, CIA
Interim Chief Audit Executive

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

Fiscal Year 2016 Audit Plan

The audit plan is in order by the Office of Internal Audit's core services. Within each core, the specific type of service is presented. Under each type of service, the project is listed. The order of presentation within each core service is not meant to represent prioritization; it is only done for ease of use. The project number noted is for reference to OIA's long range audit plan only. In addition, projects from prior years that are yet to be completed are noted since OIA resources will be dedicated to these in fiscal year 2016.

The detailed audit plan, which begins on the following page, covers the following core services.

I. Assurance Services

- ✓ Capital Projects
- ✓ Compliance
- ✓ Expenditures
- ✓ Operational
- ✓ Revenue

II. Consulting Services

- ✓ Advice and Information
- ✓ Consultation
- ✓ Committees
- ✓ Education / Training

III. Information Technology Audit Services

- ✓ IT Technical

IV. Integrity Services

- ✓ Special Investigations
- ✓ Fraud Detection Best Practices

I. Assurance Services

Capital Projects

These reviews provide assurance that risks associated with capital projects (e.g., acquisition, development, construction, implementation of capital assets) are adequately mitigated.

Department	Division	Project Name	Project Number
Related Agency	Library	Capital Projects	101.10
Related Agency	Zoo	Capital Projects	101.19

Compliance

These reviews provide assurance that operational activities are performed in compliance with applicable laws, regulations, and policies.

Department	*Division*	*Project Name*	*Project Number*
Enterprise*	N/A	Policy – Cash Management	102.07
Enterprise	N/A	Policy – Cellular Phone	102.15
Enterprise	N/A	Commercial Driver's License	102.24
Enterprise	N/A	Policy – Procurement	102.22
Enterprise	N/A	Policy - Tuition Reimbursement	102.28
Police	N/A	Narcotics Disposals	102.31

*Prior year project that is not yet completed.

Expenditures

These reviews provide assurance that disbursement activity risks are sufficiently mitigated so that accountability for public funds is achieved in an efficient and effective manner.

Department	*Division*	*Project Name*	*Project Number*
Enterprise	N/A	Payroll Review – CY2015	103.73
Enterprise	N/A	Accounts Payable Analysis	103.24
Office of Management and Budget	Fleet Management	Parts Costs	103.43
Economic Development*	N/A	PARC – Payments to Vendors	103.56
Corrections	N/A	Food Service Contract	103.37
Develop Louisville	N/A	External Agency Contracts	103.71

*Prior year project that is not yet completed.

Operational

These reviews provide assurance that risks are sufficiently mitigated so that departments / programs can achieve operational objectives in an efficient, effective, and accountable manner.

Department	*Division*	*Project Name*	*Project Number*
Enterprise	N/A	Off Book Accounts	104.18
Enterprise	N/A	Audit Follow-up	104.97
Animal Services	N/A	Animal Care	104.302
Enterprise	N/A	Grant Monitoring Process	104.77
Police*	N/A	Property Room	104.47
Police	N/A	Tow and Impound Program	104.137
Related Agencies	Office of Internal Audit	Annual Quality Assessment Review (Internal)	104.102

*Prior year project that is not yet completed.

Revenue

Revenue is inherently risky. This risk is intensified in a governmental entity where goods / services do not directly correlate to revenue. These reviews address the areas that may not be addressed by external auditors or other oversight entities, and are intended to provide assurance that risks are adequately mitigated.

Department	*Division*	*Project Name*	*Project Number*
Enterprise	N/A	Donation Receipts	105. 18
Parks	N/A	Golf Course Receipts	105.32
Enterprise	N/A	Privileges Receipts	105.25
Public Health and* Wellness	N/A	Environmental Health Services	105.38
Emergency Services*	N/A	Billing and Collection	105.52

*Prior year project that is not yet completed.

II. Consulting Services

In general, consulting services are initiated by methods other than the annual risk assessment. They may or may not require significant audit resources, and are intended to be value-added for the client.

Advice and Information

This service is provided to help identify business best practices, and to ensure major risks are identified and mitigated as needed. These projects do not require a significant investment of internal audit resources.

Department	*Division*	*Project Name*	*Project Number*
Enterprise	N/A	Special Requests	201.01
Mayor's Office	N/A	Special Requests	201.02
Metro Council	N/A	Special Requests	201.03

Consultation

This value added service is provided to help identify business best practices, and to ensure major risks are identified and mitigated as needed. These projects generally do require a significant investment of internal audit resources. These involve a wide range of issues which are important to Louisville Metro Government's operations.

Department	*Division*	*Project Name*	*Project Number*
Enterprise	N/A	Annual Financial Audit	202.06
Enterprise	N/A	Governance, Risk, Compliance (GRC) Activities	202.11
Enterprise	N/A	Special Requests	202.14
Mayor's Office	N/A	Special Requests	202.17
Metro Council	N/A	Special Requests	202.19
Related Agencies	Office of Internal Audit	Annual Report of Activities	202.21
Related Agencies	Office of Internal Audit	Internal Audit Best Practices	202.22
Related Agencies	Office of Internal Audit	Public Sector Audit Group	202.23

Committees

Committee participation is a value added service that leverages the Office of Internal Audit's expertise in helping find solutions to critical issues. In order to maintain independence, participation is limited to ex-officio (non-voting, non-decision making) status.

Department	*Division*	*Project Name*	*Project Number*
Enterprise	N/A	PeopleSoft Users Group	203.01

Education / Training

This proactive service allows sharing of the Office of Internal Audit's expertise and experience in critical operational issues.

Department	*Division*	*Project Name*	*Project Number*
Enterprise	N/A	Audit Committee	204.07
Enterprise	N/A	Supervisor Enhancement and Development	204.06

III. Information Technology Audit Services

IT Technical

These highly technical reviews require assistance from external partners and contractors. A long-range IT audit plan was developed to address IT risks and critical areas. Performance of these projects is dependent on financial resources available for external partners since these cannot be performed internally.

Department	*Division*	*Project Name*	*Project Number*
Enterprise	N/A	Business Continuity Plan / Disaster Recovery Plan	301.03
Corrections *	N/A	IMS – Inmate Management System	301.14
Emergency Services	N/A	CAD – Emergency Dispatch System	301.15
Enterprise	N/A	Penetration Testing	301.09

*Prior year project that is not yet completed.

IV. Integrity Services

Special Investigations

These investigations are performed until sufficient evidence is gathered to determine if the matter should be referred to other authorities (e.g., Law Enforcement, Human Resources), and assisting as needed after referral. These require a substantial investment of internal audit resources.

Department	*Division*	*Project Name*	*Project Number*
Enterprise	N/A	Integrity Investigations	401.01
Related Agencies	Office of Internal Audit	Lead Case Restitution	401.04

Proactive Best Practices

These projects incorporate best practices in fraud detection and prevention. This proactive service is intended to help prevent fraud as well as to support a strong anti-fraud environment.

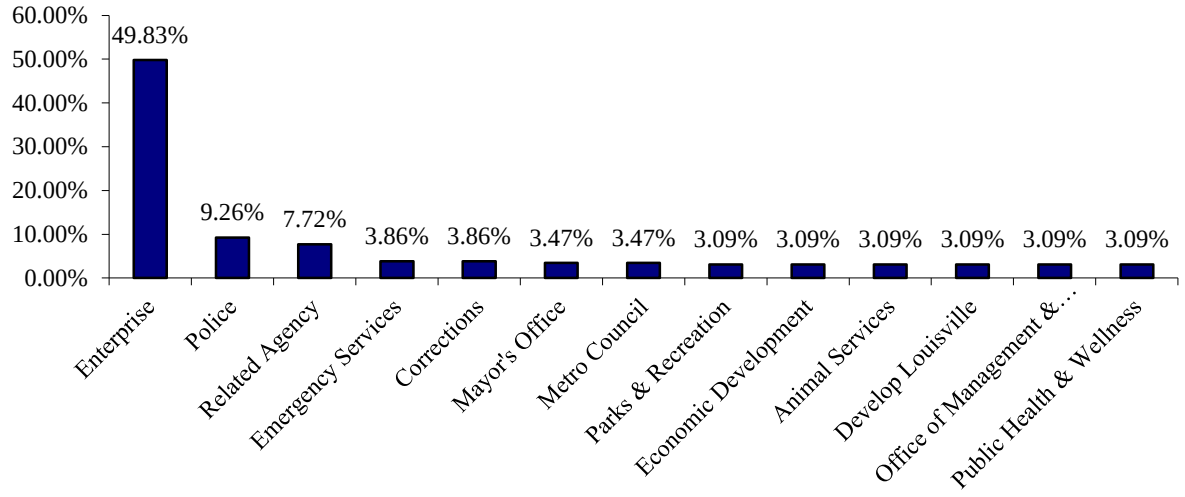
Department	*Division*	*Project Name*	*Project Number*
Enterprise	N/A	Ethics Tipline Administration	402.09
Enterprise	N/A	Fraud Awareness	402.01

Appendix

Resource Allocation by Louisville Metro Department

Chart 2 depicts the resource allocation (audit hours) for the projects listed in this plan. This chart is categorized by Louisville Metro Government Department (or Enterprise if applicable to the entire organization). This is included for informational purposes only. It does not include financial resources allocated for IT audit services.

Chart 2 – Audit Resource Allocation by Department



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