



Greg Fischer
Mayor

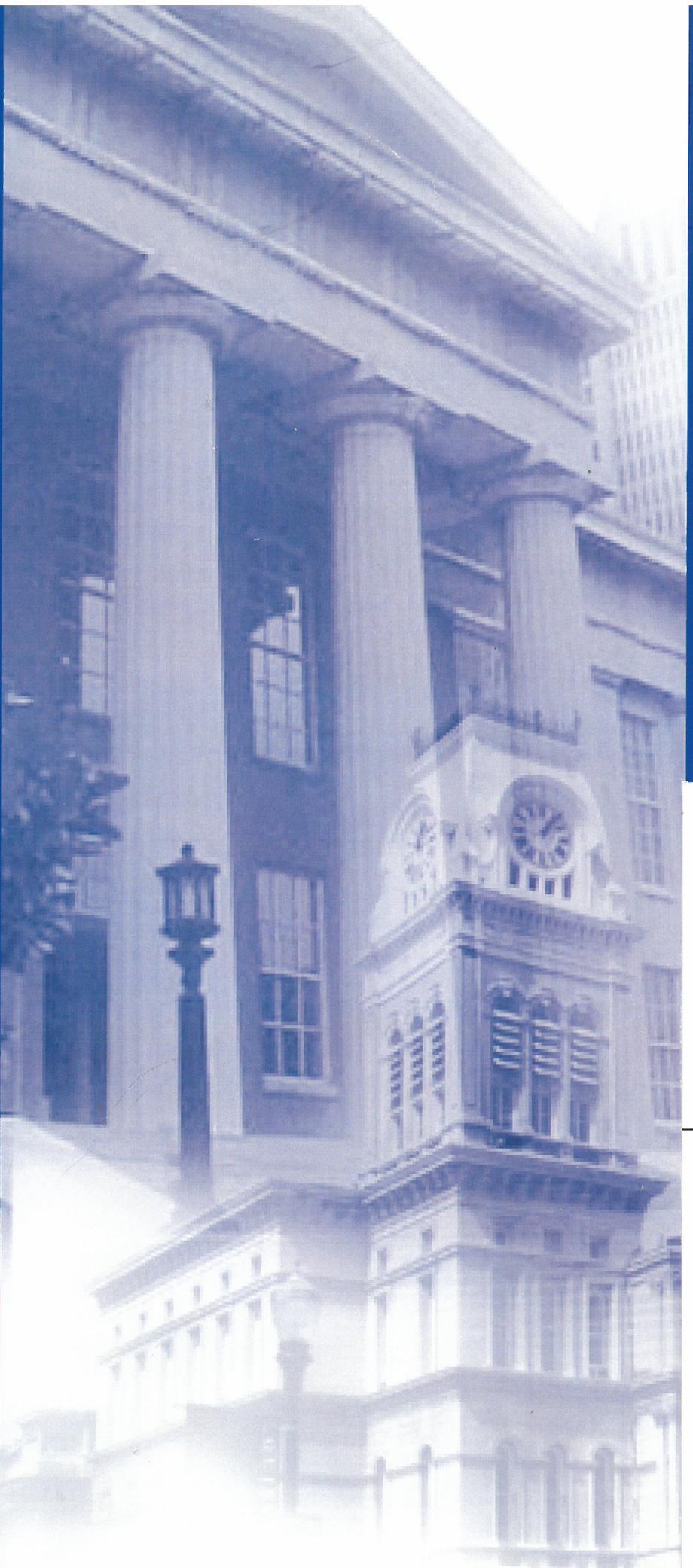
Louisville Metro Council

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

FY17 Audit Plan

September 2016



Audit Plan

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OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

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MAYOR

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DAVID YATES
PRESIDENT METRO COUNCIL

Transmittal Letter

September 26, 2016

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

Subject: FY17 Audit Plan

Introduction

Enclosed is the FY17 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, which is a

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 529 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 213 audit units ranked as high risk.

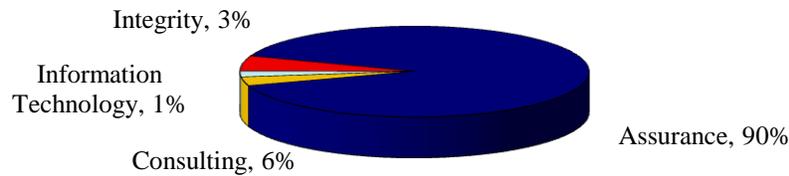
- 4. Identification of Major Risks.** Louisville Metro's major risks, from an internal audit perspective, were identified. The identification of these risks helps ensure resources are allocated to the most critical areas and processes.
 - The major risks identified are in Table 1.

Table 1 - Louisville Metro Government's Major Risks

Governance	Financial	Human Resources
<ul style="list-style-type: none"> • Transition management • Business strategy • Organizational structure • Ethical culture and environment • Independent oversight • Accountability and transparency • Compliance with laws and regulations • Performance metrics 	<ul style="list-style-type: none"> • Financial management and practices • Fiscal sustainability • Business strategy assumptions • Reliability and transparency • Accountability • Safeguarding of assets • Fraud • Debt management 	<ul style="list-style-type: none"> • 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
<ul style="list-style-type: none"> • Capacity management • Organizational change • Performance management and metrics • Quality of services • Operational synergies • Complexity of operations • Communication • Reputation • Business continuity planning • Process improvement 	<ul style="list-style-type: none"> • 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 public relations disaster 	<ul style="list-style-type: none"> • 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 10.3 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 knowledgebase 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 Louisville 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 FY17 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 contact me.

Sincerely,



May R. Porter, CIA
Chief Audit Executive

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

FY17 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 does not 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 projects in FY17.

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., programs and/or projects funded through capital appropriations) is adequately mitigated.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Related Agency	Develop Louisville	Capital Projects	101.106

Compliance

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

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise*	N/A	Policy – Cellular Device Usage and Management	102.15
Enterprise	N/A	Commercial Driver’s License	102.01
Public Works	Roads Division	Contractual Compliance	102.09
Enterprise	N/A	Policy - Tuition Reimbursement	102.28
Office of Management and Budget	Revenue Commission	Internal Inspection	102.13
Police	N/A	Narcotics Disposals	102.31

*Prior year project began but 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.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise*	N/A	Payroll Review – CY2015	103.73
Enterprise	N/A	Miscellaneous Services	103.09
Enterprise	Boards and Commissions	Member Payment Activity	103.12
Office of Management and Budget*	Fleet Management	Parts Costs	103.43
Human Resources	N/A	Health Insurance Administration	103.61

*Prior year project began but 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.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Off- Book Accounts	104.18
Enterprise	N/A	Audit Follow-up	104.97
Enterprise	N/A	Policy Alignment	104.01
Department of Information Technology	N/A	IT Project Implementation	104.11
Animal Services	N/A	Controlled Substances	104.302
Enterprise	N/A	Organizational Culture	104.77
Public Works	Electrical Maintenance	Leave and Overtime Usage	104.99
Enterprise	N/A	Background Checks	104.222
Enterprise*	N/A	Grant Monitoring Process	104.771

*Prior year project began but 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.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Donation Receipts	105.18
Parks	N/A	Revenue Activity: Billing and Collections	105.33
Corrections	N/A	Home Incarceration Program	105.07
Animal Services	N/A	Revenue Activity	105.01

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.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
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.

<i>Department</i>	<i>Division</i>	<i>Project Name</i>	<i>Project Number</i>
Enterprise	N/A	Annual Financial Audit	202.06
Enterprise	N/A	Governance, Risk, and Compliance (GRC) Activities	202.11
Enterprise	N/A	Code Enforcement	202.16
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
Related Agencies	Office of Internal Audit	Annual Quality Assessment	202.24

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.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
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.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
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.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Windows Servers	301.14
Emergency Services	N/A	CAD – Emergency Dispatch System	301.15

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 include assistance as needed after referral. These require a substantial investment of internal audit resources.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Integrity Investigations	401.01

Proactive Best Practices

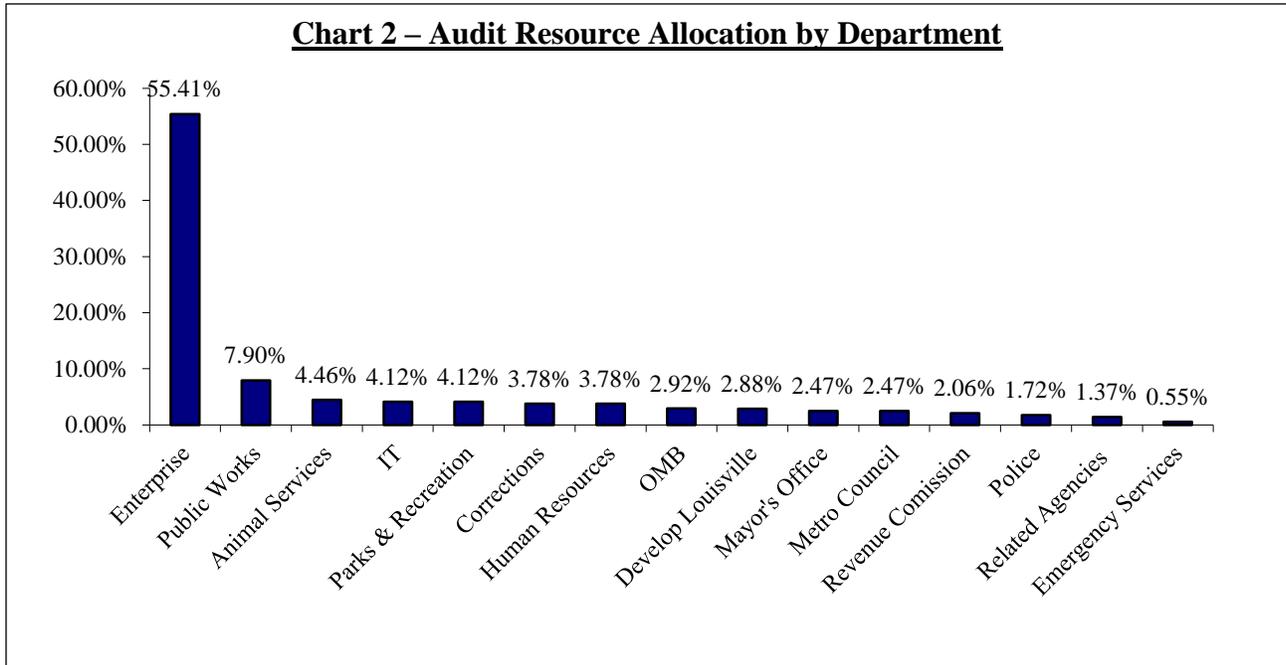
These projects incorporate best practices in fraud detection and prevention. This proactive service is intended to help prevent fraud as well as to support a strong anti-fraud environment.

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

Appendix A

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.



Appendix B

Risk Assessment Report

The Annual Risk Assessment is the foundation of the Louisville Metro Government internal audit process. The risk assessment provides the information necessary to create an audit plan that focuses on those functional areas that may be of higher risk to the organization. A critical component of the risk assessment is input from key stakeholders. In addition to obtaining input from the Metro Council and the Mayor's Office, the Office of Internal Audit used a combination of surveys and one on one meetings with key stakeholders to aid in the identification and assessment of key risks.

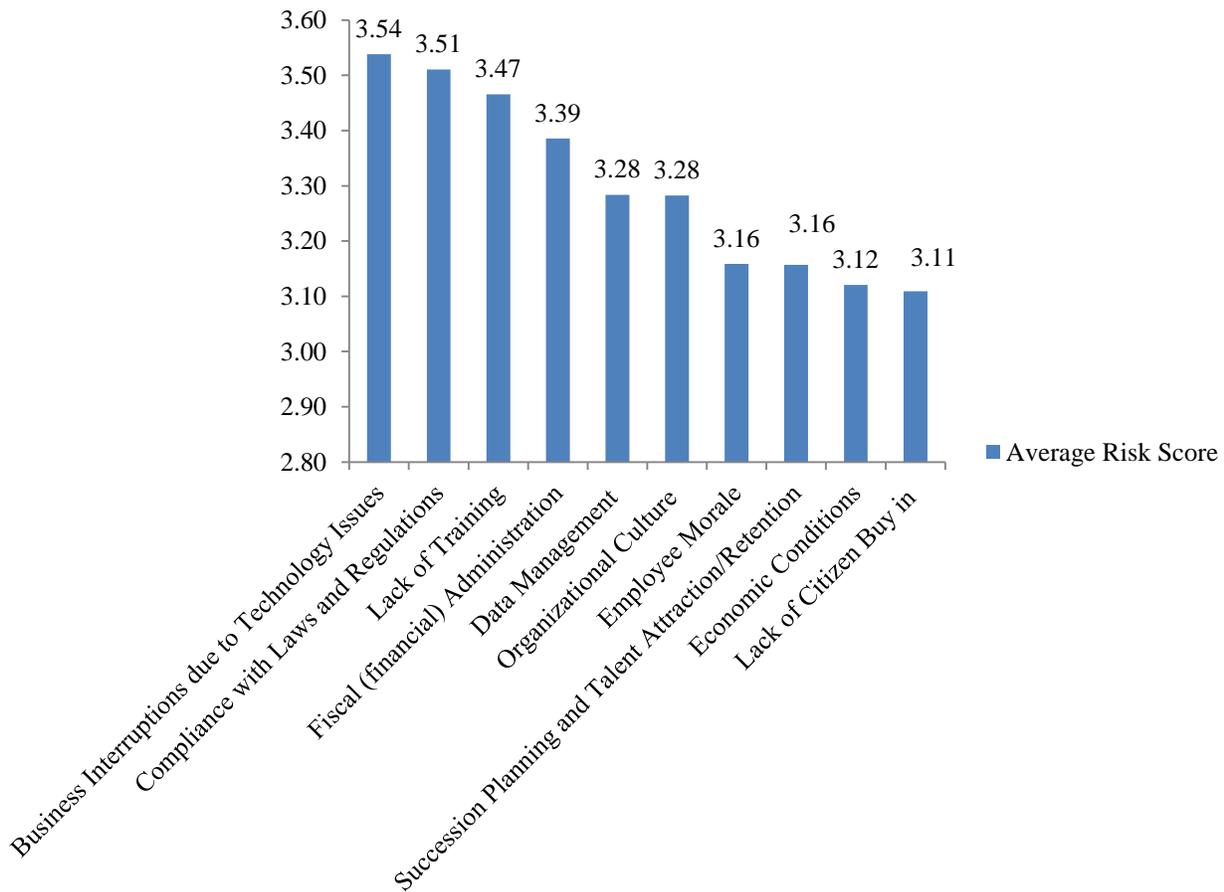
One on one meetings were held with each member of the Louisville Leadership Team and the directors of 7 judgmentally selected departments. Twenty employees consisting of chiefs, directors and assistant directors participated in the meetings. See the participant listing at **Table 1: One on One Meeting Participants.**

Table 1: One on One Meeting Participants

Name	Department	Title
Mary Ellen Wiederwohl	Louisville Forward	Chief
Yvette Gentry	Community Building	Chief
Doug Hamilton	Public Safety	Chief
Daniel Frockt	Office of Management & Budget	Chief
Theresa Reno-Weber	Office of Performance Improvement	Chief
Monica Harmon	Finance	Director
Ozzy Gibson	Animal Services	Director
Mark Bolton	Corrections	Director
Steve Durham	Corrections	Assistant Director
Dwayne Clark	Corrections	Chief of Staff
Eric Troutman	Corrections	Deputy Director
Jodie Meiman	Emergency Services	Director
Mitchell Burmeister	Emergency Services	Public Protection Supervisor
JP Hamm	Human Resources	Director
Kendall Boyd	Human Resources	Assistant Director
David Holland	Human Resources	Communications Coordinator
Kelli Rhodes	Human Resources	Talent and Retention Supervisor
Seve Ghose	Parks & Recreation	Director
Mary Ann Westenhofer	Parks & Recreation	Executive Administrator
Vanessa Burns	Public Works	Director

The Office of Internal Audit conducted a survey of 72 key employees across 24 departments. There was a 55% response rate. The employees were asked to rank the impact of key risks using a scale of 1 to 4, where a score of 1 reflects that the key risk has no impact and a score of 4 reflects that the stated risk has an extensive impact. **Graph 1: Louisville Metro Government Top Ten Key Risks** summarizes the top 10 risks identified by the respondents.

Graph 1 – Louisville Metro Government Top Ten Key Risks



The top 3 risk categories identified were: business interruptions due to technology issues, compliance with laws and regulations and lack of training.

Business Interruptions due to Technology Issues

The highest ranked risk is an interruption of business or an inability to perform essential functions due to the failure of an IT system or application. Management of risk related to technology is a challenge due to the ever-changing nature of information technology and the significant role it plays in supporting Louisville Metro Government’s day to day activities. The Office of Internal Audit will continue to contract with the third party service provider, Securance, to provide information technology audit services. In addition, the FY17 audit plan includes a review of the Information Technology Project Implementation process.

Compliance with Laws and Regulations

Management and staff are not only tasked with staying abreast of applicable laws and regulations but also with ensuring compliance. Being unaware of regulatory changes and therefore out of compliance is a top concern. Compliance is often achieved by way of effective policies. The Office of Internal Audit will review policy alignment during FY17. The review will focus on enterprise and departmental policy alignment as well as policy ownership.

Lack of Training

Lack of training is a high ranking risk for Louisville Metro Government, as the effects of inadequate training include low employee morale and low productivity. In some instances a lack of training may result in an unsafe work environment. The Office of Internal Audit will continue to identify and communicate instances in which a lack of training is the root cause of observations identified during an audit.

Office of Internal Audit

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