



Jerry E. Abramson
Mayor

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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

FY 2009 Audit Plan

July 2008

Audit Plan

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Fiscal Year 2009 Audit Plan

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OFFICE OF INTERNAL AUDIT

LOUISVILLE, KENTUCKY

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Transmittal Letter

July 11, 2008

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Fiscal Year 2009 Audit Plan

Introduction

Enclosed is the fiscal year 2009 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 Committee on Government Accountability and Audit.

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 the most

current risk model used in the internal audit profession. The approach used allows for evaluation of 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, and input from key stakeholders.
 - There were a total of 1,289 auditable units identified.

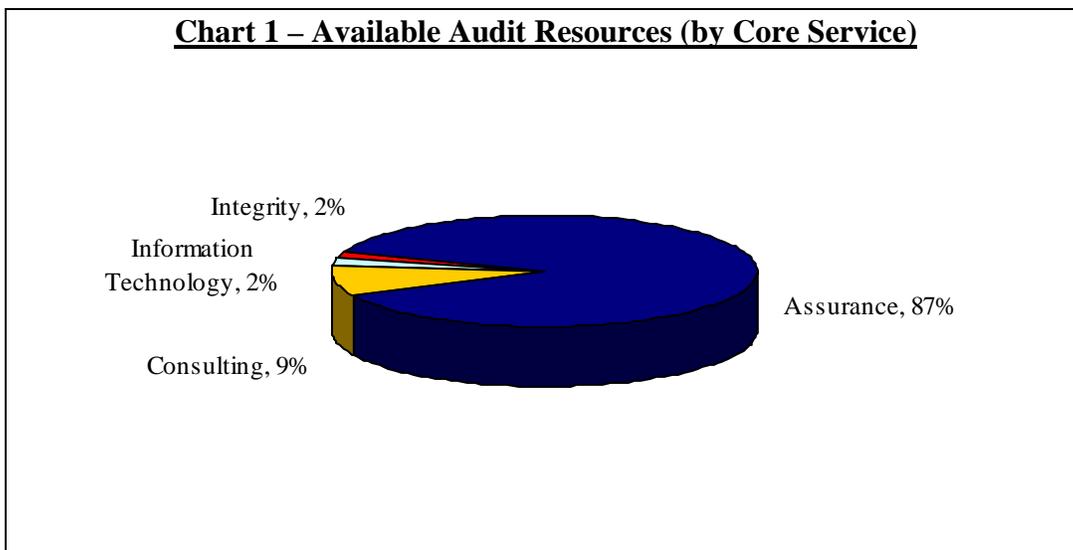
- 2. Stratify Audit Universe.** Louisville Metro's audit universe was stratified to identify the units that should be covered by other auditors (e.g., external, state, federal) and those that pertain to the Office of Internal Audit. The Office of Internal Audit's core service for each audit unit was determined.
 - The OIA's audit universe consists of 723 audit units.

- 3. Risk Assessment.** The risk assessment approach is based on the COSO - Enterprise Risk Management framework. Eleven 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 362 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 | External | Human Resources |
| <ul style="list-style-type: none"> • Organizational structure • Compliance with laws and regulations • Policies and procedures • Independent oversight • Ethics | <ul style="list-style-type: none"> • Economic conditions • Energy costs / cost inflation • Radical greening / green revolution • Capital availability • Customer expectations | <ul style="list-style-type: none"> • Pay for time worked • Cost of benefits • Succession planning / loss of institutional knowledge and experience • Culture • Recruitment / retention |
| Infrastructure | Information Technology | Operational |
| <ul style="list-style-type: none"> • Revenue accountability • Reliability and transparency of financial information • Safeguarding of assets • Fiduciary responsibilities • Capital projects | <ul style="list-style-type: none"> • Maximizing benefits of system functionalities • Security • Business interruption • Privacy of customer information | <ul style="list-style-type: none"> • Quality of services • Capacity of resources • Communication • Strategic partners and suppliers • Complexity of operations • Reputation |

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 (e.g., staff meetings). The available resources were allocated by core service as illustrated in the following.



It should be noted that Information Technology (IT) 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 10.0 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
 - Public Safety
 - Economic Development
 - Quality of Life
 - Basic Governmental Services
- 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 2009 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. These services ultimately help Louisville Metro Government achieve its core strategic objectives. The methodology also illustrates the "most bang for the buck" approach in leveraging resources to provide quality professional internal auditing services.

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

Sincerely,



Michael S. Norman, CIA, CFE, CGAP
Chief Audit Executive

cc: Louisville Metro Council Committee on Government Accountability and Audit
Louisville Metro External Auditors

Fiscal Year 2009 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 2009.

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

- ✓ Special Requests
- ✓ 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.

| <u>Department</u> | <u>Division</u> | <u>Project Name</u> | <u>Project Number</u> |
|----------------------------------|------------------------------|---------------------|-----------------------|
| Codes and Regulations | Planning and Design Services | Capital Projects | 101.17 |
| Parks and Recreation | N/A | Capital Projects | 101.05 |
| Public Works and Assets * | Public Works | Capital Projects | 101.12 |
| Related Agencies | Zoo | Capital Projects | 101.15 |

* Prior year project that is not yet completed.

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 | Asset Management | 102.03 |
| Enterprise | N/A | Cellular Telephones Tax Liability | 102.32 |
| Enterprise * | N/A | Direct Deposit Policy | 102.10 |
| Enterprise * | N/A | Ethics Program Assessment | 102.11 |
| Enterprise | N/A | Privacy of Information Risks | 102.29 |
| Enterprise | N/A | Sick Incentive Time Accrual | 102.34 |
| Enterprise | N/A | Supplier Payment Threshold | 102.25 |
| Enterprise | N/A | Use of Work Release Resources | 102.33 |
| Police | 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.

| <u>Department</u> | <u>Division</u> | <u>Project Name</u> | <u>Project Number</u> |
|----------------------------------|---------------------------------|---|-----------------------|
| Enterprise | N/A | Other Project Expenditures | 103.11 |
| Enterprise | N/A | Professional Services | 103.18 |
| Enterprise | N/A | Salaries, Wages, and Overtime | 103.17 |
| Enterprise | N/A | Salary Increases - Collective Bargaining Agreements | 103.51 |
| Public Protection | Emergency Medical Services | Fleet Charges | 103.57 |
| Public Works and Assets * | Fleet Management | Parts Room | 103.43 |
| Public Works and Assets | Solid Waste Management Services | Landfill / Sanitation Services | 103.44 |

* 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.

| <u>Department</u> | <u>Division</u> | <u>Project Name</u> | <u>Project Number</u> |
|------------------------------------|---|--|-----------------------|
| Economic Development * | Metro Development | METCO Loans | 104.03 |
| Enterprise | N/A | Audit Follow-up | 104.14 |
| Finance and Administration | Revenue Commission | Revenue Collections | 104.79 |
| Housing and Family Services | Housing and Community Development | Lead Safe Program | 104.106 |
| Police | N/A | Forfeitures | 104.91 |
| Police * | N/A | Property Room | 104.47 |
| Police | N/A | Property Room - New Record Management System | 104.100 |
| Public Health and Wellness | N/A | Federal and State Grants | 104.107 |
| Public Protection | MetroSafe | Data Integrity | 104.96 |
| Related Agencies | Office of Internal Audit | Annual Quality Assessment Review (Internal) | 104.101 |

* 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.

| <u>Department</u> | <u>Division</u> | <u>Project Name</u> | <u>Project Number</u> |
|------------------------------------|-----------------------------------|---|-----------------------|
| Codes and Regulations * | Inspections, Permits and Licenses | Alcoholic Beverage Licenses and Permits | 105.01 |
| Enterprise | N/A | Indigent Care Reimbursement | 105.72 |
| Enterprise | N/A | Investment Income and Interest | 105.74 |
| Housing and Family Services | Human Services | Operations Receipts / Contract Service Fees | 105.29 |
| Parks and Recreation | N/A | Recreation Receipts (ACTIVE System) | 105.34 |
| Public Protection | Fire | Fire Incentive Pay | 105.53 |
| Public Works and Assets | Public Works | Permit Fees / Operations Receipts | 105.61 |

* 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.

Special Requests

These requests address a wide range of issues, and are important to Louisville Metro Government's operations.

| <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 |

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 | 202.01 |
| Mayor's Office | N/A | Special Requests | 202.02 |
| Metro Council | N/A | Special Requests | 202.03 |

Consultation

This service is provided to help identify business best practices, and to ensure major risks are identified and mitigated as needed. These projects generally require a significant investment of internal audit resources.

| <u>Department</u> | <u>Division</u> | <u>Project Name</u> | <u>Project Number</u> |
|------------------------------------|------------------------------------|--|-----------------------|
| Codes and Regulations | Inspections, Permits and Licenses | Outside Collection Agency | 203.22 |
| Housing and Family Services | Housing and Community Development | Federal Grant Reconciliation | 203.18 |
| Human Resources | N/A | Workgroup Facilitation - Recruitment Process | 203.20 |
| Parks and Recreation | N/A | Farnsley-Moremen Gift Shop | 203.13 |
| Police | N/A | State Training Incentive Pay | 203.14 |
| Public Protection | Animal Services | Microchips National Registration | 203.21 |
| Related Agencies | Office of Internal Audit | Annual Report of Activities | 203.15 |
| Related Agencies | Office of Internal Audit | Internal Audit Best Practices | 203.16 |
| Related Agencies | Office of Internal Audit | Public Sector Audit Group | 203.17 |
| Related Agencies | Waterfront Development Corporation | Belle of Louisville Lawsuit | 203.19 |

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 | 204.02 |

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 | Fraud Awareness | 205.01 |
| Enterprise | N/A | Identity Theft | 205.02 |

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 | PeopleSoft 9.0 Application | 301.06 |
| Public Protection | Emergency Medical Services | Billing Application / Electronic-Patient Care Reporting | 301.15 |
| Public Protection | MetroSafe | Computer-aided Dispatch System | 301.16 |

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.

| <u>Department</u> | <u>Division</u> | <u>Project Name</u> | <u>Project Number</u> |
|-------------------------|--------------------------|--------------------------|-----------------------|
| Enterprise | N/A | Integrity Investigations | 401.01 |
| Related Agencies | Office of Internal Audit | Lead Case Restitution | 401.04 |

Fraud Detection 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.

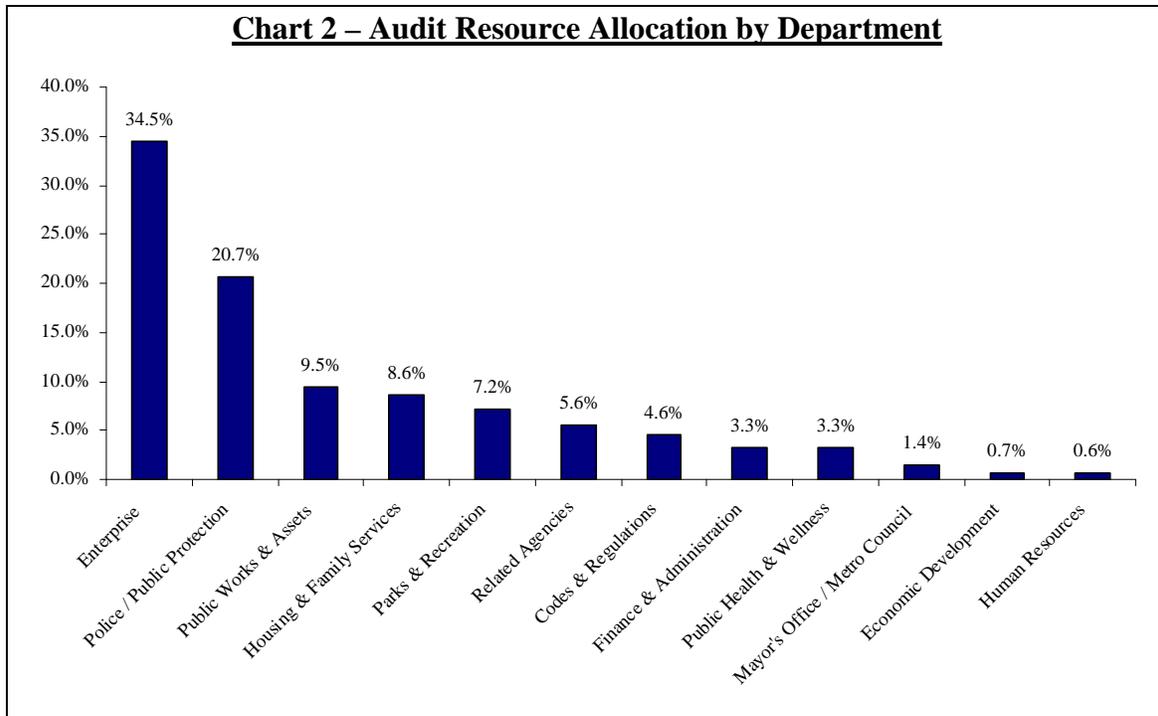
| <u>Department</u> | <u>Division</u> | <u>Project Name</u> | <u>Project Number</u> |
|---------------------|-----------------|----------------------------------|-----------------------|
| Enterprise * | N/A | Direct Deposit (Ghost Employees) | 402.01 |
| Enterprise | N/A | Supplier Payments | 402.06 |

* Prior year project that is not yet completed.

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.



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