



Jerry E. Abramson
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

FY 2011 Audit Plan

August 2010

Audit Plan

Office of Internal Audit

Office of Internal Audit

Fiscal Year 2011 Audit Plan

August 2010



FY 2011 Audit Plan

August 2010

Table of Contents

Transmittal Letter 2

 Introduction..... 2

 Methodology..... 2

 Framework 2

 Process 3

 Audit Plan 6

 Conclusion 6

Fiscal Year 2011 Audit Plan..... 7

 I. Assurance Services 8

 Capital Projects 8

 Compliance 9

 Expenditures 10

 Operational..... 11

 Revenue 13

 II. Consulting Services..... 14

 Advice and Information 14

 Consultation 15

 Committees 17

 Education / Training..... 18

 III. Information Technology Audit Services..... 19

 IT Technical..... 19

 IV. Integrity Services 20

 Special Investigations 20

 Fraud Detection Best Practices 21

 Appendix..... 22

 Resource Allocation by Louisville Metro Department 22



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

JERRY E. ABRAMSON
MAYOR

MICHAEL S. NORMAN, CIA, CFE, CGAP
CHIEF AUDIT EXECUTIVE

THOMAS L. OWEN
PRESIDENT METRO COUNCIL

Transmittal Letter

August 6, 2010

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

Subject: Fiscal Year 2011 Audit Plan

Introduction

Enclosed is the fiscal year 2011 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 Oversight 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 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, ethics tipline activity reports, and input from key stakeholders.
 - There were a total of 1,243 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 831 audit units.

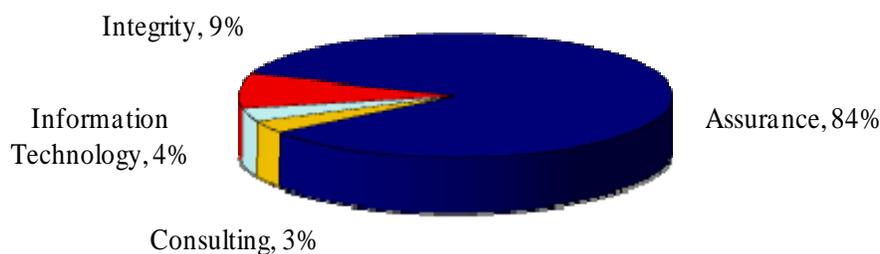
- 3. Risk Assessment.** The risk assessment approach is based on the COSO - Enterprise Risk Management framework. Eleven different risk factors were used to evaluate each audit unit in the Office of Internal Audit's universe. The factors included items such as prior audit results, complexity of operations, and relevance to strategic objectives. The units were ranked as high, medium, or low risk.
 - There were a total of 369 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 • American Recovery and Reinvestment Act requirements 	<ul style="list-style-type: none"> • Change management and culture • Capacity • Knowledge, skills and abilities • Succession planning • Training • Pay for time worked • 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 interruption • 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 	<ul style="list-style-type: none"> • Maximizing benefits of system functionalities • Business data integrity and validity • Security • Obsolescence • 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 80%. 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 11.1 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 2011 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. 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 Government Accountability and Oversight Committee
Louisville Metro External Auditors

Fiscal Year 2011 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 2011.

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.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Public Protection *	Emergency Management Agency / MetroSafe	Capital Projects	101.10
Technology Services	Information Technology	Capital Projects	101.16

* 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	Commercial Drivers License	102.24
Enterprise *	N/A	Grant Reporting - Payroll Accruals	102.39
Enterprise	N/A	Policy - Use of Volunteers (Work Release)	102.33
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.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Benefits – FICA Taxes (Employer)	103.72
Enterprise	N/A	Payroll – FICA Deductions (Employees)	103.73
Enterprise	N/A	Payroll – Retroactive Furlough Payments	103.74
Enterprise	N/A	Payroll – Salaries, Wages, and Overtime	103.17
Public Protection	Fire	Firefighter’s Settlement Payments	103.75

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>
Codes and Regulations	N/A	Financial Operations	104.107
Economic Development	N/A	Financial Operations	104.144
Enterprise	N/A	Audit Follow-up	104.14
Enterprise *	N/A	Business Office Knowledge, Skills, Abilities	104.43
Enterprise *	N/A	Capital Cumulative Reserve Fund Reporting	104.91
Enterprise	N/A	Grants (not in A-133 audit)	104.16
Enterprise *	N/A	Land Management	104.67
Enterprise *	N/A	Tax Increment Financing	104.115
Housing and Family Services	N/A	Financial Operations	104.119
Human Resources	N/A	Financial Operations	104.121
Mayor's Office	N/A	Financial Operations	104.124
Metro Council	N/A	Financial Operations	104.125
Office of Management and Budget	N/A	Financial Operations	104.129
Parks and Recreation	N/A	Brightside	104.130
Parks and Recreation	N/A	Financial Operations	104.146

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Police	N/A	Financial Operations	104.147
Public Health and Wellness	N/A	Financial Operations	104.132
Public Protection *	Corrections	Money Collection Systems	104.101
Public Works and Assets	N/A	Financial Operations	104.134
Public Works and Assets	Facilities Management	Operations	104.149
Public Works and Assets	Solid Waste Management Services	Overtime	104.150
Related Agencies	Office of Internal Audit	Annual Quality Assessment Review (Internal)	104.102
Related Agencies	Zoo	Financial Operations	104.145
Technology Services	N/A	Financial Operations	104.140

* 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>
Police	N/A	Burglar Alarm License Fees	105.98
Public Works and Assets	Solid Waste Management Services	Waste Reduction Center	105.63

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 require a significant investment of internal audit resources. These involve a wide range of issues that 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	American Recovery and Reinvestment Act	202.05
Enterprise	N/A	Annual Financial Audit	202.06
Enterprise	N/A	Financial Condition Report	202.08
Enterprise	N/A	Fiscal Agent Agreements	202.09
Enterprise	N/A	Governance, Risk, Compliance (GRC) Activities	202.11
Enterprise	N/A	Special Requests	202.14
Housing and Family Services	Community Action Partnership	Summer Food Program	202.34
Housing and Family Services	Human Services	Life Institute Grant (Fiscal Year 2010)	202.30
Human Resources	N/A	Policy - Code of Ethics	202.15
Human Resources	N/A	Policy - Secondary Employment	202.16
Mayor's Office	N/A	Special Requests	202.17
Metro Council	N/A	Special Requests	202.19
Office of Management and Budget	N/A	Prior Period Payroll Adjustments	202.26
Office of Management and Budget	N/A	Privileges Revenue	202.27

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Parks and Recreation	N/A	Brightside Agreement	202.28
Parks and Recreation	N/A	Otter Creek Park Contract	202.20
Police	N/A	Policy – Felony Case Tracking	202.29
Public Protection	Animal Services	Newburg Adoption Facility Processes	202.35
Public Protection	Corrections	Automated Receipt Processing	202.25
Public Protection	Corrections	New Jail Management System	202.32
Public Protection	Corrections	Quarterly Progress Reviews	202.33
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.

<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	Business Manager Curriculum	204.09
Enterprise	N/A	Construction Fraud	204.10
Enterprise	N/A	Fiscal Guidelines	204.08
Enterprise	N/A	Fraud Awareness	204.03
Enterprise	N/A	Identity Theft	204.04
Enterprise	N/A	Procurement Fraud	204.11
Enterprise	N/A	Standards of Ethical Conduct	204.05
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	Active Directory	301.01
Enterprise	N/A	Firewalls	301.04
Enterprise	N/A	Oracle Financials	301.08
Enterprise	N/A	Penetration Tests	301.09
Enterprise	N/A	Routers and Switches	301.11

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
Housing & Family Services *	N/A	Employee Misconduct	401.05
Housing & Family Services *	Community Action Partnership	Summer Food Program (2006-2007)	401.02
Neighborhoods *	N/A	Supplier Invoices	401.06
Related Agencies	Office of Internal Audit	Lead Case Restitution	401.04

* Prior year project that is pending results of criminal investigation.

Fraud Detection Best Practices

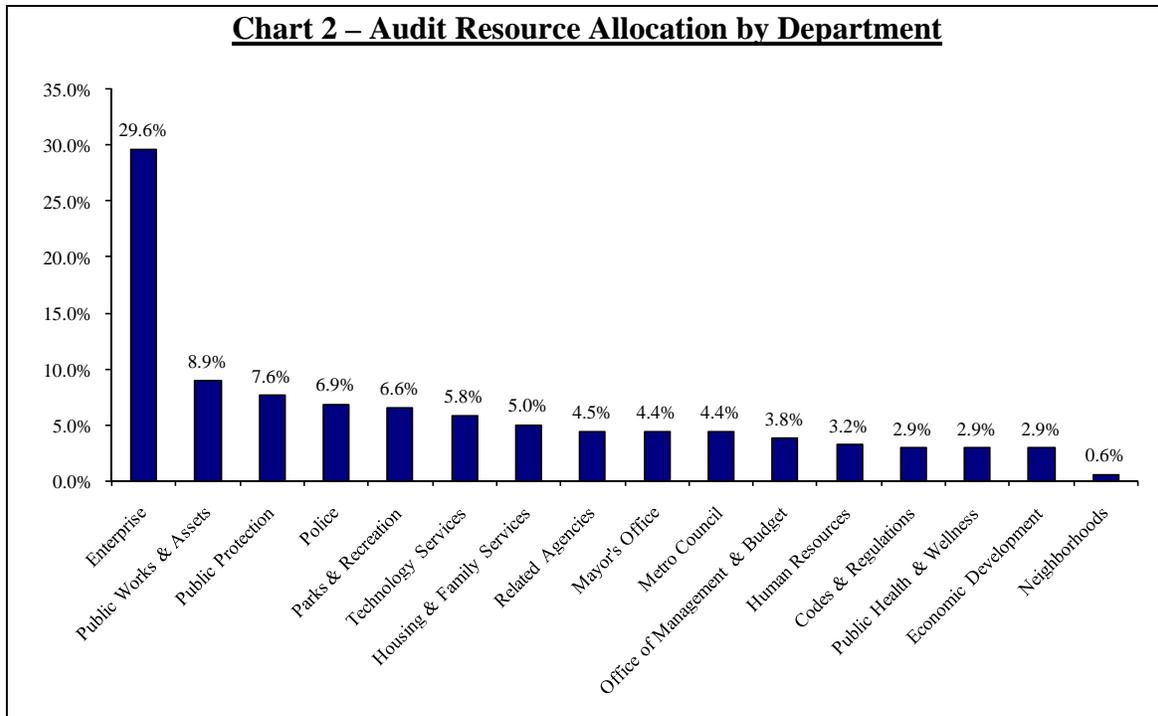
These projects incorporate best practices in fraud detection and prevention. This proactive service is intended to help prevent fraud as well as to support a strong anti-fraud environment.

<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	Ghost Employees	402.11
Enterprise	N/A	Supplier Payments	402.12

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.



Office of Internal Audit
Phone: 502.574.3291
www.louisvilleky.gov/InternalAudit/