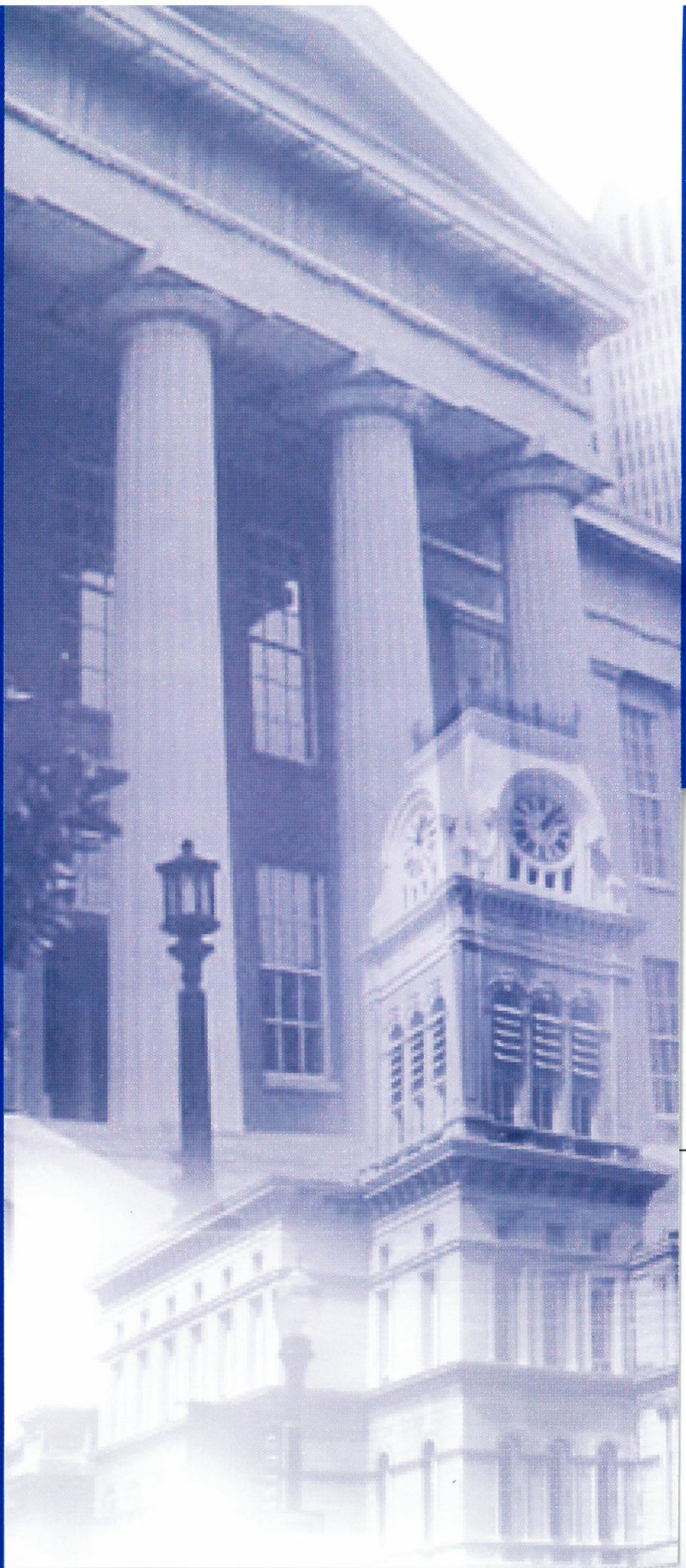




Greg Fischer  
Mayor

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

FY 2014 Audit Plan

September 2013

# Audit Plan

## Office of Internal Audit

Fiscal Year 2014 Audit Plan

September 2013



Office of Internal Audit

FY 2014 Audit Plan

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September 2013

**Table of Contents**

**Transmittal Letter ..... 2**

    Introduction..... 2

    Methodology..... 2

        Framework ..... 2

        Process ..... 3

    Audit Plan ..... 6

    Conclusion ..... 6

**Fiscal Year 2014 Audit Plan..... 7**

    I. Assurance Services ..... 8

        Capital Projects ..... 8

        Compliance ..... 9

        Expenditures .....10

        Operational.....11

        Revenue .....12

    II. Consulting Services..... 13

        Advice and Information .....13

        Consultation .....14

        Committees .....15

        Education / Training.....16

    III. Information Technology Audit Services..... 17

        IT Technical .....17

    IV. Integrity Services ..... 18

        Special Investigations .....18

        Proactive Best Practices .....19

    Appendix..... 20

        Resource Allocation by Louisville Metro Department .....20



OFFICE OF INTERNAL AUDIT  
LOUISVILLE, KENTUCKY

GREG FISCHER  
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

JIM KING  
PRESIDENT METRO COUNCIL

## **Transmittal Letter**

September 30, 2013

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

**Subject: Fiscal Year 2014 Audit Plan**

### **Introduction**

Enclosed is the fiscal year 2014 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

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.

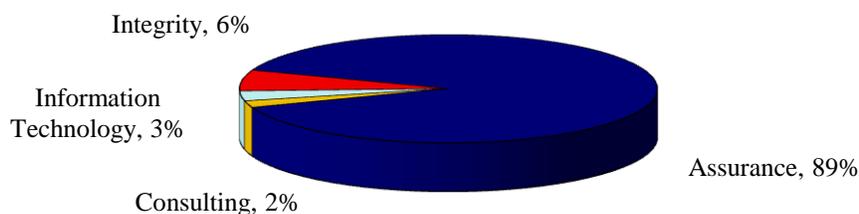
- 1. Identify Louisville Metro's Audit Universe.** All audit units (e.g., programs, processes) for Louisville Metro Government were identified. These units constitute the audit universe for Louisville Metro Government. The identification was achieved using a variety of sources, including organizational 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 1,254 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 695 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 275 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**

| <b>Governance</b>  | <b>Financial</b>  | <b>Human Resources</b>   |
|--|---|--|
| <ul style="list-style-type: none"> <li>• Transition management</li> <li>• Business strategy</li> <li>• Organizational structure</li> <li>• Ethical culture and environment</li> <li>• Independent oversight</li> <li>• Accountability and transparency</li> <li>• Compliance with laws and regulations</li> <li>• Performance metrics</li> </ul>                                 | <ul style="list-style-type: none"> <li>• Financial management and practices</li> <li>• Fiscal sustainability</li> <li>• Business strategy assumptions</li> <li>• Reliability and transparency</li> <li>• Accountability</li> <li>• Safeguarding of assets</li> <li>• Fraud</li> <li>• Debt management</li> </ul>  | <ul style="list-style-type: none"> <li>• Change management and culture</li> <li>• Capacity</li> <li>• Knowledge, skills and abilities</li> <li>• Succession planning</li> <li>• Training</li> <li>• Intergenerational relationships</li> <li>• Compensation policies</li> <li>• Health and safety</li> <li>• Health care mandates</li> </ul>     |
| <b>Operational</b>   | <b>External</b>   | <b>Information Technology</b>  |
| <ul style="list-style-type: none"> <li>• Capacity management</li> <li>• Organizational change</li> <li>• Performance management and metrics</li> <li>• Quality of services</li> <li>• Operational synergies</li> <li>• Complexity of operations</li> <li>• Communication</li> <li>• Reputation</li> <li>• Business Continuity Planning</li> <li>• Process improvement</li> </ul> | <ul style="list-style-type: none"> <li>• Fiscal and economic conditions</li> <li>• Customer expectations</li> <li>• Energy availability and cost</li> <li>• Capital availability</li> <li>• Financial markets</li> <li>• Regulatory environment and mandates</li> <li>• Unemployment and underemployment</li> <li>• Severe weather event</li> <li>• Supply chain failure</li> <li>• Reputational PR disaster</li> </ul> | <ul style="list-style-type: none"> <li>• Maximizing benefits of system functionalities</li> <li>• Business data integrity and validity</li> <li>• Data Security</li> <li>• Obsolescence</li> <li>• Business interruption</li> <li>• Privacy of customer information</li> <li>• Document management program</li> <li>• Social networks</li> </ul> |

**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 10.7 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 2014 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.

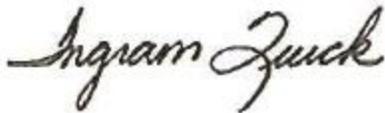
- A summary of resource allocation by Louisville Metro Government Department is in Chart 2 in the Appendix.

### 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,



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Ingram Quick, CIA, CFE  
Chief Audit Executive

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

## **Fiscal Year 2014 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 2014.

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> |
|--|-------------------------------|---------------------|-----------------------|
| <b>Community Services and Revitalization</b> | Compliance and Administration | Capital Projects    | 101.29                |
| <b>Public Protection</b>                     | Animal Services               | Capital Projects    | 101.23                |
| <b>Public Protection*</b>                    | Fire                          | Capital Projects    | 101.09                |
| <b>Public Protection</b>                     | Youth Detention Services      | Capital Projects    | 101.25                |

\*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> |
|-----------------------------|-----------------|---|-----------------------|
| <b>Enterprise</b>           | N/A             | Office Supplies Contract                | 102.29                |
| <b>Enterprise</b>           | N/A             | Policy – Supplier Payment<br>Timeliness | 102.26                |
| <b>Enterprise</b>           | N/A             | Policy – Travel                         | 102.27                |
| <b>Parks and Recreation</b> | N/A             | Summer Camp                             | 102.30                |
| <b>Police</b>               | N/A             | Narcotics Disposals                     | 102.31                |

## 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> |
|---------------------------------------|------------------|----------------------------------|-----------------------|
| <b>Economic Growth and Innovation</b> | N/A              | PARC – Payments to Vendors       | 103.56                |
| <b>Enterprise</b>                     | N/A              | Payroll Review – CY2013          | 103.73                |
| <b>Enterprise</b>                     | N/A              | Recycling Expenses               | 103.20                |
| <b>Human Resources</b>                | N/A              | Benefits – Tuition Reimbursement | 103.68                |
| <b>Public Works and Assets</b>        | Fleet Management | Parts Costs                      | 103.43                |

## 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> |
|---|-------------------------------|---|-----------------------|
| <b>Community Services and Revitalization*</b> | Compliance and Administration | External Agency Grants                              | 104.33                |
| <b>Economic Growth and Development*</b>       | N/A                           | METCO Loans   | 104.82                |
| <b>Enterprise</b>                             | N/A                           | Audit Follow-up                                     | 104.14                |
| <b>Metro Council</b>                          | N/A                           | Neighborhood Development Funds – Monitoring Process | 104.127               |
| <b>Police</b>                                 | N/A                           | Property Room                                       | 104.47                |
| <b>Public Health and Wellness*</b>            | N/A                           | Clinical Services Program - Cancer Screenings       | 104.132               |
| <b>Related Agencies</b>                       | 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.

| <u>Department</u>                     | <u>Division</u>                 | <u>Project Name</u>                         | <u>Project Number</u> |
|---------------------------------------|---------------------------------|---|-----------------------|
| <b>Economic Growth and Innovation</b> | N/A                             | PARC – Parking Meter Revenue                | 105.09                |
| <b>Police</b>                         | N/A                             | Burglar Alarm License Fees                  | 105.98                |
| <b>Police</b>                         | N/A                             | Charges for Service – Police Records Report | 105.99                |
| <b>Public Protection</b>              | Animal Services                 | Operations Receipts                         | 105.11                |
| <b>Public Works and Assets</b>        | Public Works                    | Permit Fees                                 | 105.89                |
| <b>Public Works and Assets*</b>       | Solid Waste Management Services | Waste Reduction Center                      | 105.63                |

\*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.

| <u>Department</u> | <u>Division</u> | <u>Project Name</u> | <u>Project Number</u> |
|-------------------|-----------------|---------------------|-----------------------|
| <b>Enterprise</b> | N/A             | Special Requests    | 201.01                |

## 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> |
|--|--------------------------|---|-----------------------|
| <b>Enterprise</b>                      | N/A                      | Annual Financial Audit                        | 202.06                |
| <b>Enterprise</b>                      | N/A                      | Financial Condition Report                    | 202.08                |
| <b>Enterprise</b>                      | N/A                      | Governance, Risk, Compliance (GRC) Activities | 202.11                |
| <b>Enterprise</b>                      | N/A                      | Special Requests                              | 202.14                |
| <b>Mayor's Office</b>                  | N/A                      | Special Requests                              | 202.17                |
| <b>Metro Council</b>                   | N/A                      | Special Requests                              | 202.19                |
| <b>Metro Council</b>                   | N/A                      | NDF Grant Monitoring                          | 202.36                |
| <b>Office of Management and Budget</b> | N/A                      | Prior Period Payroll Adjustments              | 202.26                |
| <b>Public Protection</b>               | Corrections              | New Jail Management System                    | 202.32                |
| <b>Related Agencies</b>                | Office of Internal Audit | Annual Report of Activities                   | 202.21                |
| <b>Related Agencies</b>                | Office of Internal Audit | Internal Audit Best Practices                 | 202.22                |
| <b>Related Agencies</b>                | 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> |
|-------------------|-----------------|------------------------|-----------------------|
| <b>Enterprise</b> | 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.

| <i>Department</i> | <i>Division</i> | <i>Project Name</i>                    | <i>Project Number</i> |
|-------------------|-----------------|--|-----------------------|
| <b>Enterprise</b> | N/A             | Procurement Fraud                      | 204.11                |
| <b>Enterprise</b> | N/A             | Standards of Ethical Conduct           | 204.05                |
| <b>Enterprise</b> | 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> |
|--------------------------|-----------------|--|-----------------------|
| <b>Enterprise</b>        | N/A             | Information Technology Risk Assessment | 301.06                |
| <b>Enterprise</b>        | N/A             | Routers and Switches – Cisco Routers   | 301.11                |
| <b>Public Protection</b> | Corrections     | IMS – Inmate Management System         | 301.14                |
| <b>Public Protection</b> | MetroSafe       | 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 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> |
|-------------------------|--------------------------|--------------------------|-----------------------|
| <b>Enterprise</b>       | N/A                      | Integrity Investigations | 401.01                |
| <b>Related Agencies</b> | 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.

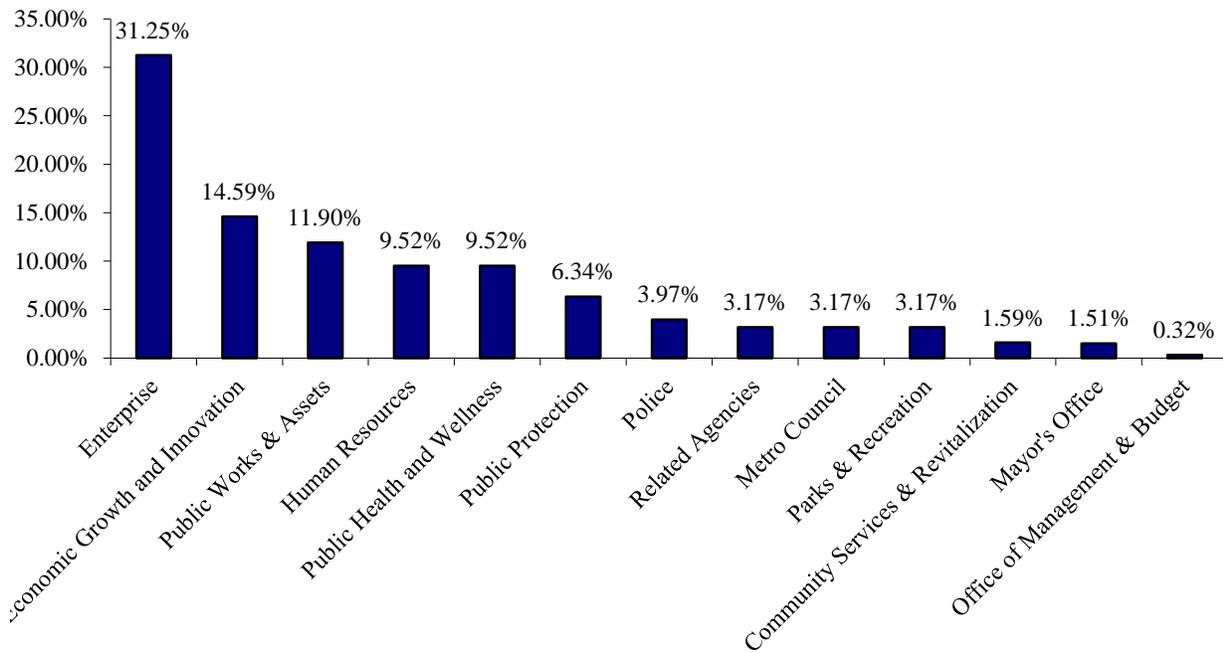
| <i>Department</i> | <i>Division</i> | <i>Project Name</i>           | <i>Project Number</i> |
|-------------------|-----------------|-------------------------------|-----------------------|
| <b>Enterprise</b> | N/A             | Ethics Tipline Administration | 402.09                |
| <b>Enterprise</b> | 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**



Office of Internal Audit

Phone: 502.574.3291

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