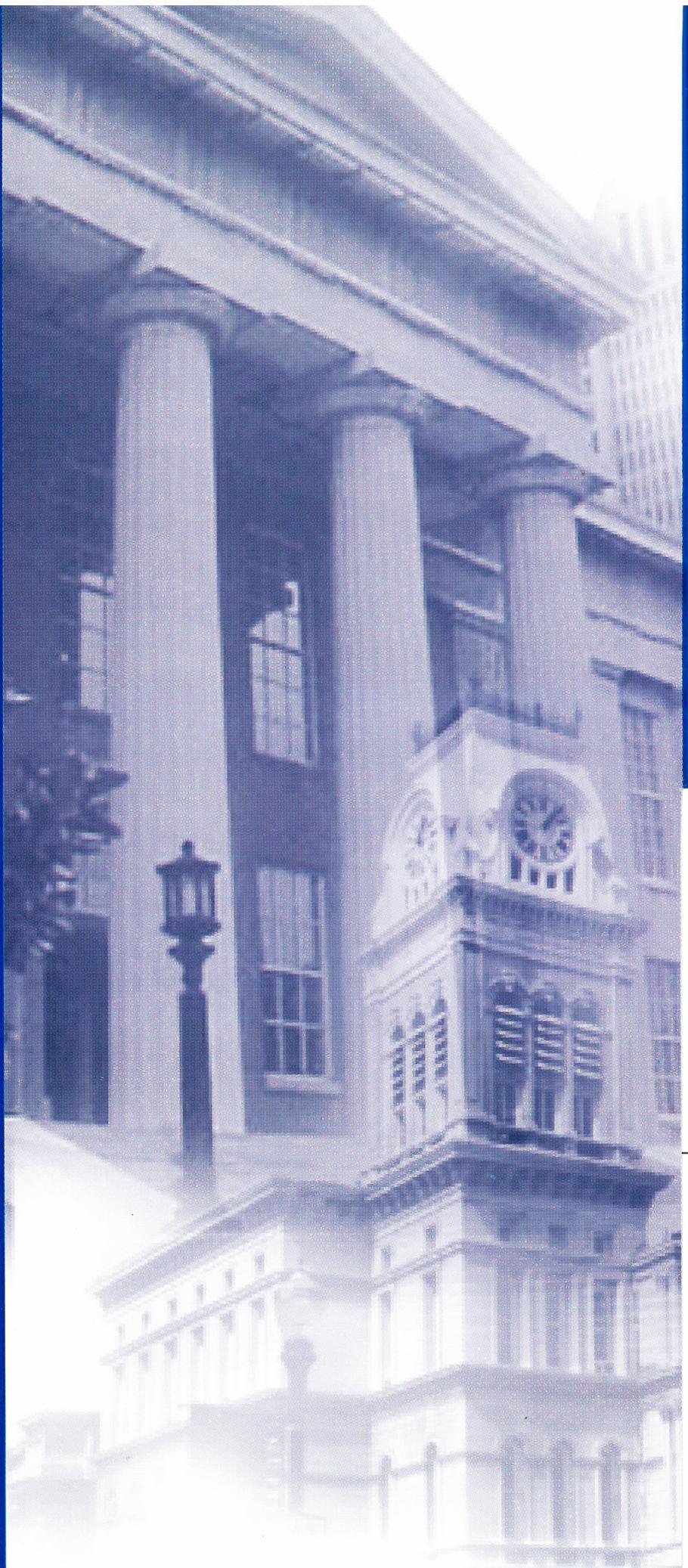




Greg Fischer
Mayor

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

Louisville Free Public Library

Capital Projects

Audit Report

Louisville Free Public Library

Capital Projects

April 2016



Louisville Free Public
Library

Capital Projects

Office of Internal Audit

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Executive Summary

PROJECT TITLE

Louisville Free Public Library - Capital Projects

OBJECTIVE AND SCOPE

The objective was to perform a review of the Louisville Free Public Library (Library) capital projects. The primary focus was to verify that selected capital projects were properly authorized and subsequently funded in accordance with the capital appropriation. The review also included verifying that the appropriated funds were used as intended. The expenditure activity was assessed to verify compliance with contractual terms and various Louisville Metro Government Purchasing Policies. The objective was to obtain assurance that operational risks are adequately mitigated through the internal control structure. This was a scheduled audit.

This was a compliance review based on project expenditures during the life of the project. The review covered activity from project inception to completion. The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.

INTERNAL CONTROL ASSESSMENT

Needs Improvement

RESULTS

The selected capital projects were properly authorized and funded in accordance with the capital appropriation. The appropriated funds were used as intended. Opportunities exist for improving the internal control structure for the administration of the Louisville Free Public Library capital projects. Examples of the issues include the following.

- **Contractual Issues.** There were issues noted regarding noncompliance with contractual terms as well as noncompliance with Louisville Metro Government Purchasing Policies and Procedures.
 - There were instances in which compliance with contractual terms could not be determined due to inadequate supporting documentation.
 - There was an instance in which additional expenditures were paid prior to the issuance of a change order. The purchasing policy requires the issuance of a change order before additional contract expenditures are approved for payment.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

MAY R. PORTER, CHIEF AUDIT EXECUTIVE

DAVID YATES
PRESIDENT METRO COUNCIL

Transmittal Letter

April 29, 2016

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

Subject: Audit of the Louisville Free Public Library - Capital Projects

Introduction

An audit of the Louisville Free Public Library (Library) capital projects was performed. The primary focus was to verify that selected capital projects were properly authorized and subsequently funded in accordance with the capital appropriation. The review also included verifying that the appropriated funds were used as intended. The expenditure activity was assessed to verify compliance with contractual terms and various Louisville Metro Government Purchasing Policies. The objective was to obtain assurance that operational risks are adequately mitigated through the internal control structure. A total of four capital projects were selected for review.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The expenditures for selected Library Capital Projects were reviewed. The objective was verifying that selected capital projects were properly authorized and subsequently funded in accordance with the capital appropriation. The review also included verifying that the appropriated funds were used as intended. The expenditure activity was assessed to verify compliance with contractual terms and various Louisville Metro Government (LMG) Purchasing Policies. Detailed policies and procedures were not considered within the scope of the review, nor was the bid and award process for supplier contracts. The review period covered project inception through September 30, 2015. The following four projects were included in the review. The total amount of funding appropriated for each is noted.

- Southwest Regional Library, \$13,500,000
- Shively Library Renovation, \$358,000
- Historic Tax Credit, \$429,000
- Self-Service Checkout, \$64,600

An understanding of the capital projects reviewed was obtained through interviews of key personnel. This included obtaining an understanding of project objectives, goals, and expenditure activity. Documentation reviewed included Louisville Metro Ordinances, capital budgets, financial system records, contracts, invoices and other supporting documentation.

A sample of expenditures from each of the four projects was reviewed. The expenditure activity was assessed to verify intended use as well as compliance with applicable contracts and LMG Purchasing Policies. In addition, a sample of items procured for the capital projects was verified through visual inspections. The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report. The audit would not identify all issues because it was based on selective review of procedures and data.

Opinion

It is our opinion that the internal control structure for the Library Capital Projects needs improvement. The internal control rating is on page 6 of this report. This rating quantifies the opinion regarding the internal controls. Specific compliance results include the following.

- **Appropriation.** Expenditure activity for the four projects reviewed was in compliance with the intended use of the appropriation. No recommendations were necessary.

- **Contractual.** There were issues noted regarding noncompliance with contractual terms as well as noncompliance with Louisville Metro Government Purchasing Policies and Procedures.
 - There were instances in which compliance with contractual terms could not be determined due to inadequate supporting documentation.
 - There was an instance in which additional expenditures were encountered and paid prior to the issuance of a change order. The purchasing policy requires the issuance of a change order before additional contract expenditures are approved for payment.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. No recommendations were necessary.

Corrective Action Plan

Representatives from the Library have reviewed the results and are committed to addressing the issues noted. Corrective action plans are included in this report in the Observations and Recommendation section. We will continue to work with the Library to ensure the actions taken are effective to address the issues noted.

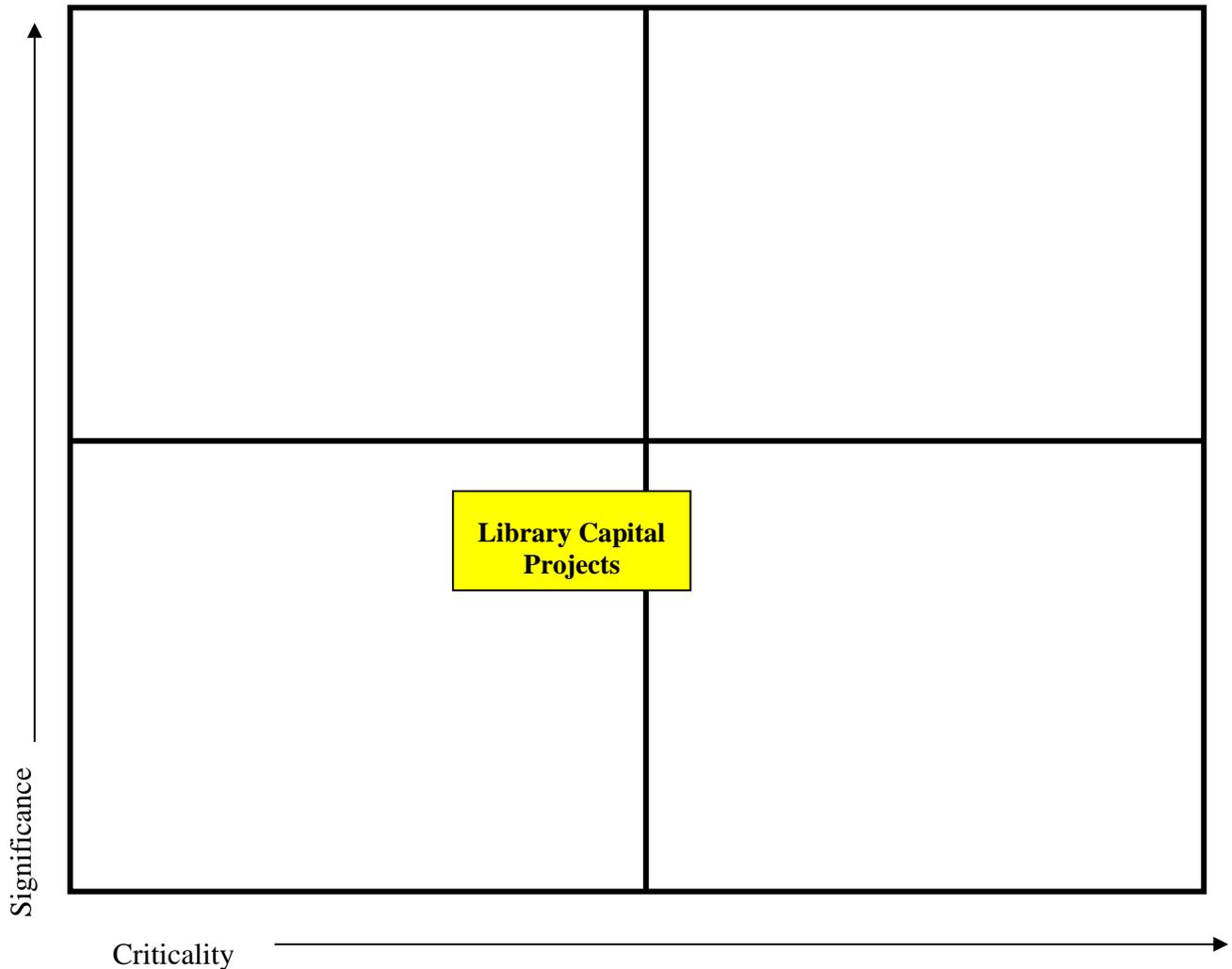
Sincerely,



Mayria Porter, CIA
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Louisville Free Public Library Director
Louisville Metro External Auditors
Louisville Metro Council President

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	<u>Satisfactory</u>	<u>Needs Improvement</u>	<u>Inadequate</u>
	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<i>Controls</i>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<i>Policy Compliance</i>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<i>Image</i>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<i>Corrective Action</i>	May be necessary.	Prompt.	Immediate.

Background

Capital projects are authorized by ordinances approved by Metro Council. The projects involve activities related to acquiring, constructing, maintaining, repairing or improving the Library locations.

Capital projects may be authorized as part of the annual budgetary process or appropriated at any time during the fiscal year. Each capital project has a specific description that summarizes the scope of work to be performed. The overall project scope cannot be significantly changed without the approval of Metro Council. Projects may also be funded by agency receipts with approval from the Chief Financial Officer and the Mayor.

As of September 30, 2015, the Library had a total of fourteen active capital projects with expenditures totaling approximately \$26,394,606.

The administration of capital projects often involves resources from other LMG departments, such as the Purchasing Division of the Office of Management and Budget. These other departments have critical roles such as evaluating bids, negotiating contracts and managing projects.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit performed an audit of appropriations for the Library Capital Projects in 2012. Unless otherwise noted, all prior issues have been satisfactorily addressed.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to the Library on March 25, 2016. An exit conference was held at the Louisville Free Public Library Main Branch on April 22, 2016. Attending were Director Jim Blanton and Belinda Catman representing the Library and May Porter representing Internal Audit. Final audit results were discussed.

The views of Library officials were received on April 22, 2016 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”

The Library response was provided within this required timeframe.

Observations and Recommendations

Scope and Methodology

The expenditures for selected Library capital projects were reviewed. The objective was verifying that selected capital projects were properly authorized and subsequently funded in accordance with the capital appropriation. The review also included verifying that the appropriated funds were used as intended. The expenditure activity was assessed to verify compliance with contractual terms and various Louisville Metro Government (LMG) Purchasing Policies. Detailed policies and procedures were not considered within the scope of the review, nor was the bid and award process for contracts.

The population of Library capital projects was compiled from various sources. This included reviews of annual capital budget documents and Louisville Metro Government's financial system. The review covered project inception through September 30, 2015.

Four capital projects were selected for review. The project name, and total amount of expenditures during the review period, is as follows.

- Southwest Regional Library, \$13,226,717
- Shively Library Renovation, \$356,129
- Historic Tax Credit, \$349,306
- Self-Service Checkout, \$55,678

An understanding of the capital projects reviewed was obtained through interviews of key personnel. This included obtaining an understanding of capital project objectives, goals, and expenditure activity. Documentation reviewed included Louisville Metro Ordinances, capital budgets, financial system records, contracts, invoices and other supporting documentation.

A sample of expenditures from each of the four projects was reviewed. The expenditure activity was assessed to verify intended use as well as compliance with applicable contracts and LMG Purchasing Policies. In addition, a sample of items procured for the capital projects was judgmentally selected and physically verified through visual inspections. The review would not reveal all issues because it was based on selective review of data.

Observations

Some issues were noted with the administration of Library capital projects. As a result, the effectiveness of the internal control structure is impaired and needs improvement. Opportunities to strengthen the controls include the following.

- 1) Southwest Regional Library
- 2) Shively Library Renovation
- 3) Historic Tax Credit
- 4) Self-Service Check Out

Details of these begin on the following page.

1) Southwest Regional Library

Project Summary

The project funds the design and construction of a 40,000 square foot, state-of-the-art, energy efficient library.

Authorizing Legislation

Capital Budget Ordinance #141, Series 2011
Capital Budget Ordinance #119, Series 2012

Authorized Appropriation

\$13,500,000

Observations

There was an issue noted with the administration of the Southwest Regional Library capital project. Specifics include the following.

- **Appropriation.** No issues were noted. The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** There was an issue noted in determining compliance with contractual terms due to inadequate supporting documentation. Inadequate supporting documentation impairs the ability to verify that the goods and services were procured in accordance to the contractual terms. *(Similar issues were noted in the previous audit.)*
 - There was one of fifteen instances in which contractual compliance could not be determined due to missing information regarding web based pricing. The contractual terms stipulated that pricing is based on a percentage discount from the supplier's nationally advertised price which is posted on the supplier's website. However, a record of the price from the supplier's website at the time of purchase was not maintained. As a result, the accuracy of the discounted prices charged on the invoice could not be determined.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed. *(Images are included on the next page.)*



Southwest Regional Library Exterior



Southwest Regional Library Interior

Recommendations

Appropriate personnel should consider the following corrective actions to address the issues noted. Specifics include the following.

- ✓ Appropriate personnel should review all supporting documentation to ensure the project expenditure is in compliance with contractual terms prior to the approval of payment. The documentation should be explicit as to the services/work performed or goods provided. Sufficient documentation should be provided to allow a reasonable person to independently verify the expenditure agrees to the contractual terms. Further actions include the following.
 - Develop or update departmental procedures to require review and maintenance of supporting documentation prior to approving payment of applicable invoices.
 - Supporting documentation should be included with the corresponding request for purchase using the Office of Management and Budget's Request for Purchase Form using SharePoint. This will ensure the supporting documentation is reviewed along with the invoice prior to approval of the payment. Further, the supporting documentation will be maintained in SharePoint.

Library's Corrective Action Plan

The Library concurs with and will implement the recommendations related to the Southwest Regional Library capital project.

2) Shively Library Renovation

Project Summary

The project funds the renovation of the Shively Library.

Authorizing Legislation

Resolution No. 183, Series 2013

Resolution No. 267, Series 2010

Louisville Metro Council City Agency Request #CIF111313PW03

Authorized Appropriation

\$358,000

Observations

There was an issue noted with the administration of the Shively Library Renovation capital project. Specifics include the following.

- **Appropriation.** No issues were noted. The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** There was an issue noted in determining compliance with contractual terms due to inadequate supporting documentation. Inadequate supporting documentation impairs the ability to verify that the goods and services were procured in accordance to the contractual terms. *(Similar issues were noted in the previous audit.)*
 - There was one of nine instances reviewed in which contractual compliance could not be determined due to the lack of details on the invoice. The contractual terms stipulated an hourly rate for services based on the job title of the individual performing the services. The job titles of the individuals performing the services could not be determined, as a result, the accuracy of the hourly rates could not be determined. The contract terms also stipulated specific rates for equipment usage. The specific types of equipment and quantities used could not be determined. As a result, the accuracy of the charges for equipment could not be determined.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed. *(Images are included on the next page.)*



Shively Library Renovation Exterior

Recommendations

Appropriate personnel should consider the following corrective actions to address the issue noted. Specifics include the following.

- ✓ Appropriate personnel should review all supporting documentation to ensure the project expenditure is in compliance with contractual terms prior to the approval of payment. The documentation should be explicit as to the services/work performed or goods provided. Sufficient documentation should be provided to allow a reasonable person to independently verify the expenditure agrees to the contractual terms. Further actions include the following.
 - Develop or update departmental procedures to require review and maintenance of supporting documentation prior to approving payment of applicable invoices.
 - Supporting documentation should be included with the corresponding request for purchase using the Office of Management and Budget's Request for Purchase Form using SharePoint. This will ensure the supporting documentation is reviewed along with the invoice prior to approval of the payment. Further, the supporting documentation will be maintained in SharePoint.

Library's Corrective Action Plan

The Library concurs with and will implement the recommendations related to the Shively Library Renovation capital project.

3) Historic Tax Credit

Project Summary

The project funds the Main Library renovation and improvements through the sale of Historic Tax Credits. The project involves the installation of storm and sanitary pump stations.

Authorizing Legislation

Ordinance #215, Series 2012

Authorized Appropriation

\$429,000

Observations

There was an issue noted with the administration of the Historic Tax Credit Capital Project for the Main Library renovation and improvements.

- **Appropriation.** No issues were noted. The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** There were instances which included noncompliance with Louisville Metro Purchasing Policies and Procedures.
 - There were three instances in which the procurement of goods / services was not in compliance with Louisville Metro Purchasing Policies and Procedures. In each instance, Louisville Metro Government had a lump sum contract with the vendor at the time of the purchase. However, expenditures that were not included in the contract were paid prior to the issuance of a change order. The purchasing policy requires the issuance of a change order before additional expenditures are approved for payment.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed.



Main Library Pumping Stations

Recommendations

Appropriate personnel should consider the following corrective actions to address the issue noted. Specifics include the following.

- ✓ Any negotiations agreed upon by parties subsequent to the bid award should be thoroughly documented and approved through the appropriate channels as defined in the Louisville Metro Purchasing Policies and Procedures.

Library's Corrective Action Plan

The Library concurs with and will implement the recommendations related to the Historic Tax Credit capital project for the Main Library renovation and improvements.

4) Self-Service Check Out

Project Summary

The project funds the installation of up to date self-service check outs at five library locations: Bon Air, Iroquois, Shively, Westport and Highlands-Shelby Park. This includes upgrading hardware and software at locations currently offering self-check-out and installing new self-check-out systems.

Authorizing Legislation

Capital Budget Ordinance #107, Series 2013

Authorized Appropriation

\$64,600

Observations

There was an issue noted with the administration of the Self-Service Check Out Capital Project. Specifics include the following.

- **Appropriation.** No issues were noted. The expenditures reviewed were in compliance with the intended use of the appropriation.
- **Contractual.** There was an issue noted in determining compliance with contractual terms due to inadequate supporting documentation. Inadequate supporting documentation impairs the ability to verify that goods and services were procured in accordance to the contractual terms. *(Similar issues were noted in the previous audit.)*
 - There was one of seven instances in which contractual compliance could not be determined due to missing information regarding web based pricing. The contractual terms stipulated that pricing is based on a percentage discount from the supplier's nationally advertised price which is posted on the supplier's website. However, a record of the price from the supplier's website at the time of purchase was not maintained. As a result, the accuracy of the discounted prices charged on the invoice could not be determined.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed. *(Images are included on the next page.)*



Self-Service Check Out Systems

Recommendations

Appropriate personnel should consider the following corrective actions to address the issue noted. Specifics include the following.

- ✓ Appropriate personnel should review all supporting documentation to ensure the project expenditure is in compliance with contractual terms prior to the approval of payment. The documentation should be explicit as to the services/work performed or goods provided. Sufficient documentation should be provided to allow a reasonable person to independently verify the expenditure agrees to the contractual terms. Further actions include the following.
 - Develop or update departmental procedures to require review and maintenance of supporting documentation prior to approving payment of applicable invoices.
 - Supporting documentation should be included with the corresponding request for purchase using the Office of Management and Budget's Request for Purchase Form using SharePoint. This will ensure the supporting documentation is reviewed along with the invoice prior to approval of the payment. Further, the supporting documentation will be maintained in SharePoint.

Library's Corrective Action Plan

The Library concurs with and will implement the recommendations related to the Self-Service Check Out capital project.



The purpose of this survey is to solicit your opinion concerning the quality of the Louisville Free Public Library (Library) Capital Project Audit Report. Please feel free to expand on any areas that you wish to clarify in the comment area at the end. Please return the completed survey electronically to IAUDITIMB@Louisvilleky.gov or to ATTN: Internal Audit 609 W. Jefferson St Louisville, KY 40202. We sincerely appreciate your feedback. The survey can also be completed online at the following link: <https://louisvilleky.wufoo.com/forms/audit-report-satisfaction-survey/>

Survey

1. The audit report thoroughly explained the scope, objectives, and timing of the audit.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

2. The audit report reflects knowledge of the departmental/governmental policies related to the area or process being audited.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

3. The audit report is accurate and clearly communicated the audit results.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

4. The audit recommendations were constructive, relevant, and actionable.

Strongly Agree
 Agree
 Neither Agree or Disagree
 Disagree
 Strongly Disagree

5. **Was there anything about the audit report that you especially liked?

6. **Was there anything about the audit report that you especially disliked?

Office of Internal Audit

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