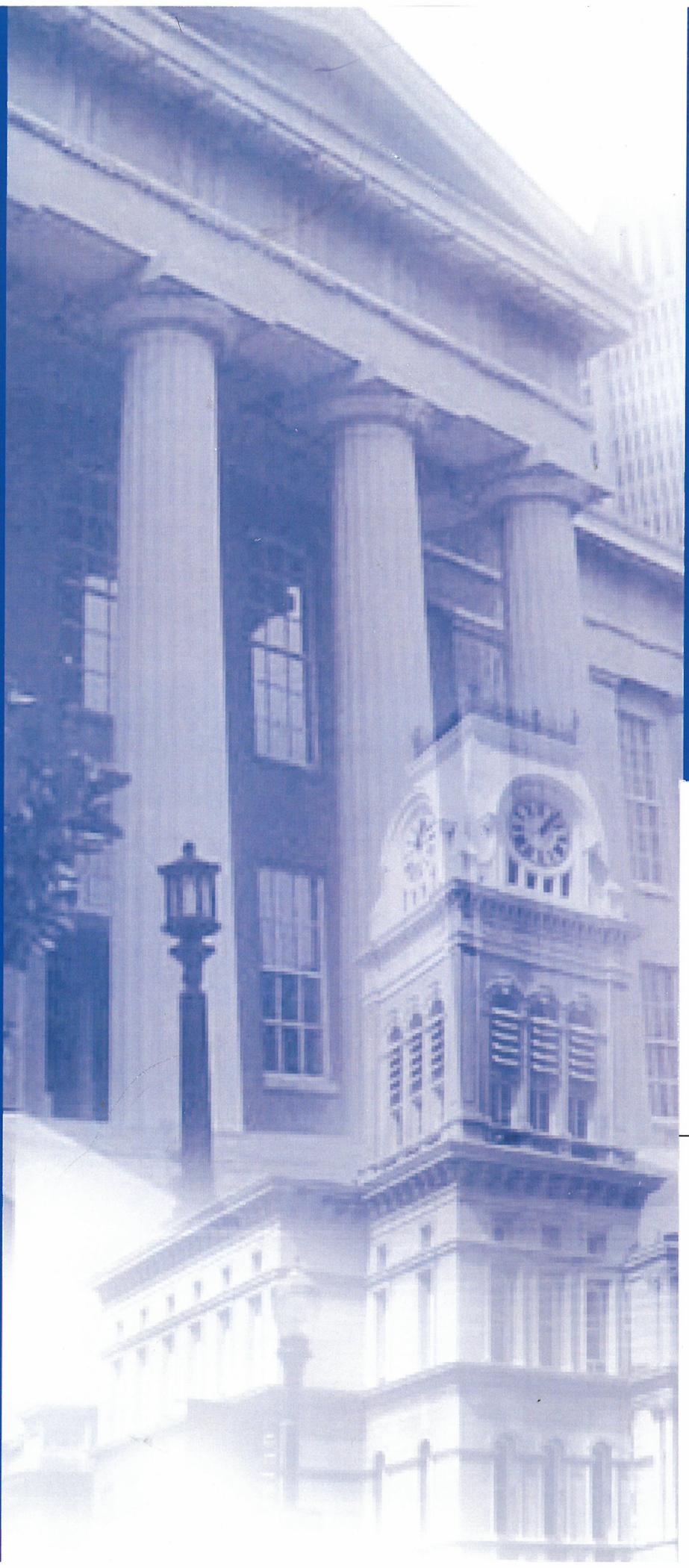




Greg Fischer
Mayor
Louisville Metro Council

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 Metro Police
Department

Property Room

Audit Report

Louisville Metro Police Department

Property Room

September 2015



Louisville Metro Police
Department

Property Room

Office of Internal Audit

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Executive Summary

PROJECT TITLE

Louisville Metro Police Department (LMPD) - Property Room

OBJECTIVE AND SCOPE

The objective was to perform a review of the Louisville Metro Police Department (LMPD) Property Room. The operating policies, procedures, and records for the Property Room activity were reviewed. The focus was activity processing, including logging, storing, retrieval, and disposition of property. The objective was to obtain assurance that the risks are adequately mitigated through the internal control structure.

This was an assurance review based on policies and procedures for the operational and fiscal administration of the LMPD Property Room. The review included activity processed during calendar year 2014 (January 1, 2014 through December 31, 2014). The details of the scope and methodology of the review are addressed in the Observations and Recommendations.

INTERNAL CONTROL ASSESSMENT

Satisfactory

RESULTS

The internal control structure for the LMPD Property Room is satisfactory. LMPD personnel should be commended for their work on correcting, implementing, and monitoring the issues that were noted within the Property Room Records Management System (2009) audit report. The improvement shows their commitment to addressing and improving the controls related to the Property Room activity. While the overall rating is satisfactory, opportunities to strengthen the internal control structure were noted. Specifics include the following.

- **Property Disposals.** There was 1 of 50 instances in which property categorized as Safekeeping was held for less than 90 days. Kentucky Revised Statutes (KRS) 67.954 requires that property categorized as Found or Safekeeping must be held for at least 90 days prior to disposal or release.
- **Property Verification.** There was 1 of 50 instances in which property could not be located in the storage location that was noted in the records management system.
- **General Administration.** The LMPD Property Room Operation Manual has not been updated to reflect changes to procedures.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

MAY R. PORTER, INTERIM CHIEF AUDIT
EXECUTIVE

DAVID TANDY
PRESIDENT METRO COUNCIL

Transmittal Letter

September 4, 2015

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

Subject: Audit of the Louisville Metro Police Department - Property Room

Introduction

An audit of the Louisville Metro Police Department Property Room was performed. The operating policies, procedures and records specific to the Property Room were reviewed. The primary focus was the operational and fiscal administration of the activity. This included how activity was processed, recorded, and monitored. The objective was to obtain assurance that the risks are adequately mitigated through internal controls in the process.

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 audit, 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

A thorough understanding of the LMPD Property Room was obtained in order to evaluate the internal control structure. This was achieved through interviews of key personnel and examination of supporting documentation. This included obtaining an understanding of the policies and procedures for processing, recording, monitoring, and reporting activity. Testing of activity was also performed to determine the effectiveness of the controls.

LMPD Property Room activity and applicable policies and procedures were reviewed. The review included Property Room activity related to logging, storing, retrieval, and disposition of property during calendar year 2014 (January 1, 2014 through December 31, 2014). The review included assessing whether activity was processed, recorded, and monitored in accordance with the LMPD Property Room Operation Manual and applicable laws and regulations. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not identify all weaknesses because it was based on selective review of data.

Opinion

It is our opinion that the internal control structure for the LMPD Property Room is satisfactory. The internal control rating is on page 6 of this report. The rating quantifies our opinion regarding the internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Property Disposals.** There was 1 of 50 instances in which property categorized as Safekeeping was held for less than 90 days. Kentucky Revised Statutes (KRS) 67.954 requires that property categorized as Found or Safekeeping must be held for at least 90 days prior to disposal or release.
- **Property Verification.** There was 1 of 50 instances in which property could not be located in the storage location that was noted in the records management system.
- **General Administration.** The LMPD Property Room Operation Manual has not been updated to reflect changes to procedures.

Corrective Action Plan

Representatives from LMPD 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 LMPD to ensure the actions taken are effective to address the issues noted.

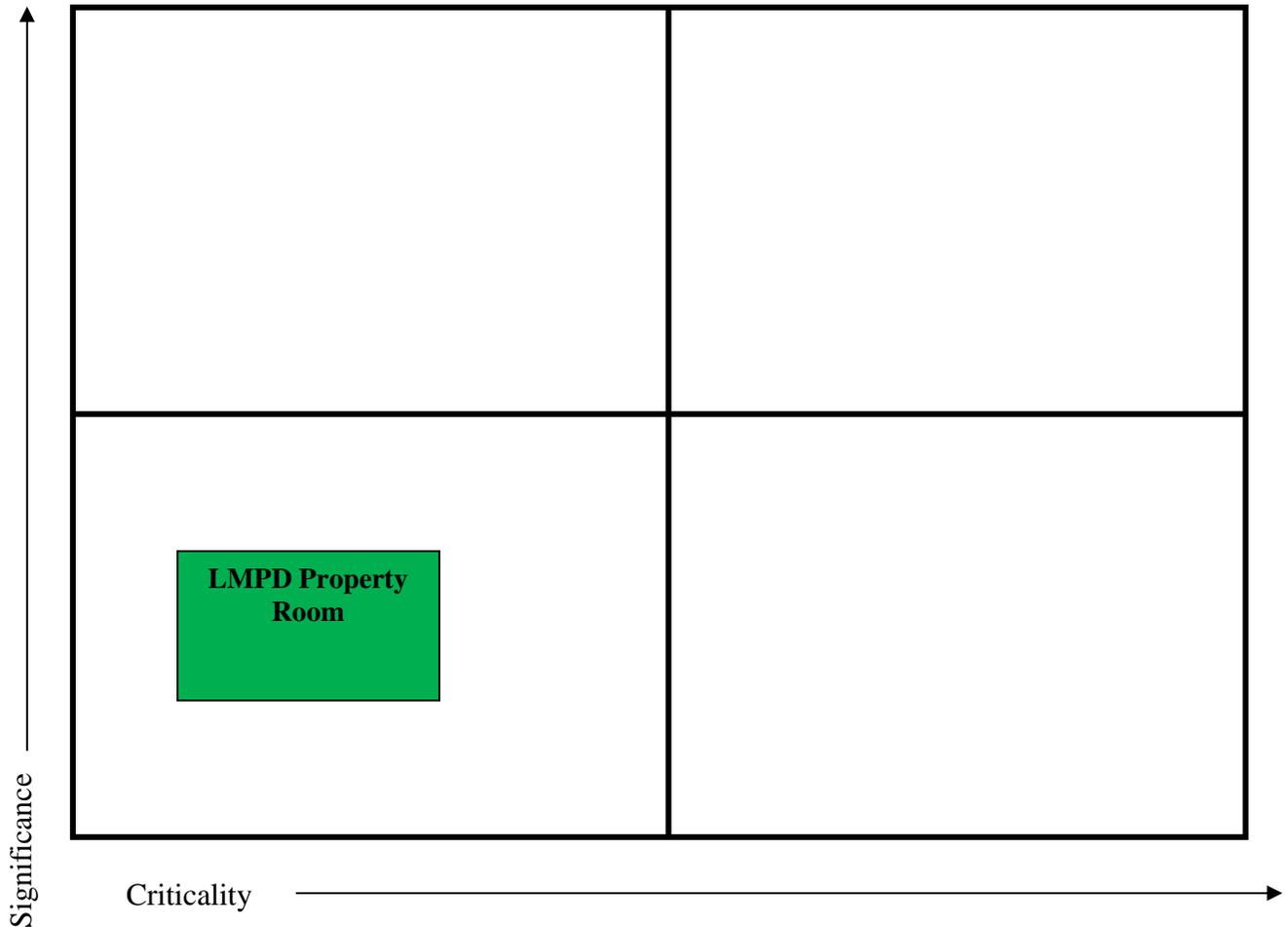
Sincerely,



May R. Porter, CIA
Interim Chief Audit Executive

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

Internal Control Rating



<u>Legend</u>			
<i>Criteria Issues</i>	<u>Satisfactory</u> Not likely to impact operations.	<u>Needs Improvement</u> Impact on operations likely contained.	<u>Inadequate</u> 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

The Louisville Metro Police Department (LMPD) operates a Property Room to provide security and control of seized, found, and recovered property and evidence. Proper management of these items is essential in supporting investigations and facilitating the timely return of property to its rightful owners. The Property Room is responsible for the accurate and safe receipt, security, and disposition of property.

The fiscal year 2015 operating budget for the property room was approximately \$977,200. The property room operates on a twenty-four hours per day, seven days per week schedule with a budgeted staff compliment of ten positions. The property room processes approximately 40,000 property items annually.

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 previously conducted a review of the Louisville Metro Police Department's Property Room Records Management System in October of 2009 and the Louisville Metro Police Department's Property Room in 2008. 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 Louisville Metro Police Department on August 24, 2015. It was determined that a formal exit conference was not necessary.

The views of the Louisville Metro Police Department officials were received on August 31, 2015 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 Louisville Metro Police Department response was provided within this required timeframe.

Observations and Recommendations

Scope and Methodology

A review of the Louisville Metro Police Department (LMPD) Property Room was performed. The operating policies, procedures, and records for the property room were reviewed. The primary focus was the Property Room activity, including logging, storing, retrieval, and disposition of property. The objective was to obtain assurance that the risks are adequately mitigated through the internal control structure.

Property Room activity was tested using a sampling approach. Approximately 48,000 items were processed during the review period (January 2014 through December 2014). Samples consisting of approximately 182 items were selected to test accuracy, completeness, and timeliness.

- A sample, consisting of 50 items, was reviewed to assess the controls within the property intake process.
- A sample, consisting of 50 items, was reviewed to assess the controls within the process for permanent release of property.
- A sample, consisting of 12 items, was reviewed to assess the controls within the process for temporary release of property.
- A sample, consisting of 50 items, was reviewed to assess the timeliness of disposals and/or releases of property.
- A sample, consisting of 20 items, was reviewed to assess the controls within the disposal process.

The examination would not reveal all non-compliance issues because it was based on selective review of data.

Observations

The overall internal control structure is satisfactory. Specific details and results of the review are as follows.

- 1) Property Disposals
- 2) Property Verification
- 3) General Administration

Details of these begin on the following page.

1) Property Disposals

- **Property Disposals.** Property categorized as Found or Safekeeping does not require written authorization to dispose or release. However, Kentucky Revised Statutes (KRS) 67.954 requires that property categorized as Found or Safekeeping must be held for at least 90 days prior to disposal or release.
 - There was 1 of 50 instances in which property categorized as Safekeeping was held for less than 90 days. The property was disposed after only 67 days.

Recommendations

Appropriate LMPD personnel should take corrective actions to address the issues noted. Specific recommendations include the following.

- ✓ Dispose of property categorized as Found or Safekeeping after 90 days. Consider the following:
 - Use the reporting functionality of the Property Room records management system, I-Leads to organize the disposal listing based on the date of intake.
 - If there is an exception to the 90 day requirement, update I-Leads to document the reason as well as the person that authorized the exception.

LMPD's Corrective Action Plan

LMPD concurs with and will implement the recommendations related to Property Disposal. In addition, LMPD notes the following:

Property Room Command will send out instructions to all staff clarifying expectations for the disposal process.

2) Property Verification

- **Property Verification.** The records management system, I-Leads, is used by the Property Room. It reflects the location of the property, the date and time that the property was received and released, as well as the chain of custody from the time the property was logged in until its destruction or other final disposition.
 - There was 1 of 50 instances in which the property could not be located in the storage location that was noted in I-Leads. It is likely that the item was disposed. However, the disposal was not documented in I-Leads. (*Similar issues were noted during the previous audit*)

Recommendations

Appropriate LMPD personnel should take corrective actions to address the issues noted. Specific recommendations include the following.

- ✓ Care should be taken by Property Room staff to follow current policies and procedures outlined in the LMPD's Property Room Operation Manual to ensure that the I-Leads system is updated when the property location is altered. This will help ensure that the system is reporting the accurate property status and that all property is properly accounted for.

LMPD's Corrective Action Plan

LMPD concurs with and will implement the recommendations related to Property Verification. In addition, LMPD notes the following:

Property Room Command will send out instructions to all staff clarifying expectations for the property verification process.

3) General Administration

- **General Administration.** There was an issue noted with the general administration of the LMPD Property Room.
 - The LMPD's Property Room Operation Manual has not been updated to reflect changes to the policy and corresponding procedures regarding the transport of currency from the Property Room to the bank.

Recommendations

Appropriate LMPD personnel should take corrective actions to address the issues noted. Specific recommendations include the following.

- ✓ It is a good practice to review the manual on an annual basis. However, the LMPD's Property Room Operation Manual should be amended as the procedures change.

LMPD's Corrective Action Plan

LMPD concurs with and will implement the recommendations related to General Administration. In addition, LMPD notes the following:

Property Room Command will send out an updated Property Room Manual to all staff once it is updated.



The purpose of this survey is to solicit your opinion concerning the quality of the Louisville Metro Police Department (LMPD) Property Room 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.

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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