



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

Parking Authority of River
City (PARC)

Vendor Payment Activity

Audit Report

Parking Authority of River City (PARC)

Vendor Payment Activity

January 2016



Parking Authority of River
City (PARC)

Vendor Payment Activity

Office of Internal Audit

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Executive Summary

PROJECT TITLE

Parking Authority of River City – Vendor Payment Activity

OBJECTIVE AND SCOPE

The objective was to perform a review of the Parking Authority of River City's (PARC) vendor payment activity. The operating policies, procedures, and records for the vendor payment activity 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.

This was an assurance review based on the Louisville Metro Government Purchasing Policy and applicable regulations for the operational and fiscal administration of vendor payment activity. The review included activity that occurred during fiscal year 2015 (July 1, 2014 through June 30, 2015). 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

Opportunities exist for improving the internal control structure for the Parking Authority of River City's vendor payment activity. Examples 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 were instances in which the contract was not amended, as required by the Louisville Metro Government Purchasing Policy, to include goods and/or services purchased.
 - There was an instance in which a service was procured without a contract. The Louisville Metro Government Purchasing Policy requires all purchases of services to be made using a contract.
 - There were instances in which compliance with statutory regulations regarding payment timeliness could not be determined.
- **Reimbursement Billing.** It could not be confirmed that PARC has a consistent and formal process in place to reconcile the monthly bill and communicate discrepancies to the Office of Management and Budget in a timely manner.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

MAY R. PORTER, INTERIM CHIEF AUDIT
EXECUTIVE

DAVID TANDY
PRESIDENT METRO COUNCIL

Transmittal Letter

January 6, 2016

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

Subject: Audit of the Parking Authority of River City Vendor Payment Activity

Introduction

An audit of the Parking Authority of River City (PARC) vendor payment activity was performed. The operating policies, procedures, and records for the vendor payment activity 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 the internal control structure.

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 PARC vendor payment activity 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, reconciling, and reporting of activity. Testing of activity was also performed to determine the effectiveness of the controls.

PARC vendor payment activity was reviewed. The review included vendor payment activity during fiscal year 2015 (July 1, 2014 through June 30, 2015). The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. 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 PARC vendor payment activity needs improvement. 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.

- **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 were instances in which the contract was not amended, as required by the Louisville Metro Government Purchasing Policy, to include goods and/or services purchased.
 - There was an instance in which a service was procured without a contract. The Louisville Metro Government Purchasing Policy requires all purchases of services to be made using a contract.
 - There were instances in which compliance with statutory regulations regarding payment timeliness could not be determined.
- **Reimbursement Billing.** It could not be confirmed that PARC has a consistent and formal process in place to reconcile the monthly bill and communicate discrepancies to the Office of Management and Budget in a timely manner.

Corrective Action Plan

Representatives from the Parking Authority of River City 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 Parking Authority of River City to ensure the actions taken are effective to address the issues noted.

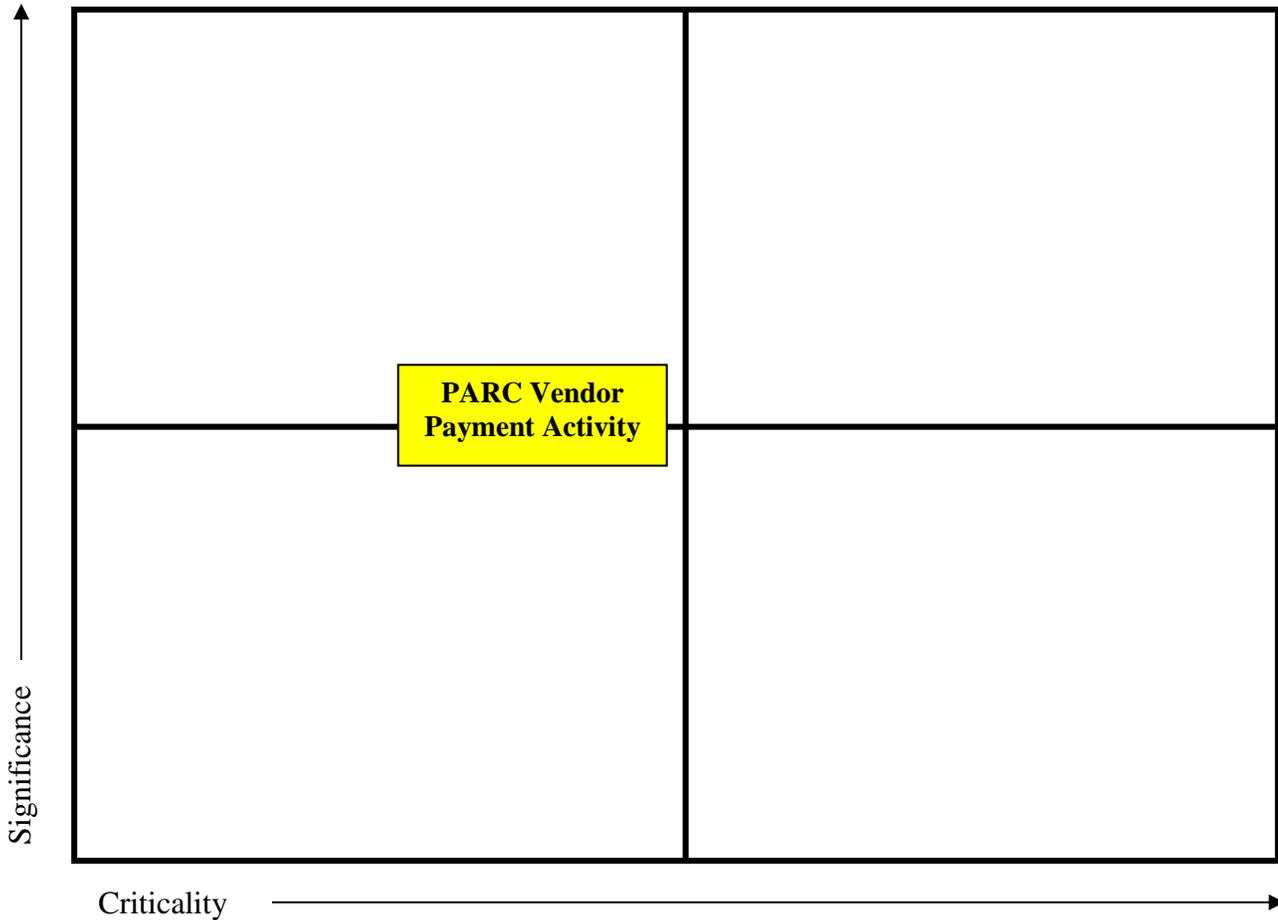
Sincerely,



Mayria Porter, CIA
Interim Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Director of Parking Authority of River City
Louisville Metro External Auditors
Louisville Metro Council President

Internal Control Rating



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

Background

The Parking Authority of River City (PARC) provides public parking to meet the existing and future needs of the community. With 14 garages and 6 lots in and around the central business district, totaling more than 11,000 off-street and 5,000 on street spaces, PARC ensures its operations are run in an efficient, safe, convenient, and user friendly manner. PARC has three divisions: Off-street parking (Garages and Lots), On-street parking (meters), and Parking Enforcement, working in unison to create a better parking experience.

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 has not performed any previous reviews of PARC's vendor payment activity.

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 PARC on November 11, 2015. An exit conference was held at PARC on December 4, 2015. Attending were Tiffany Smith, Mike Tudor, and Stephen Cameron representing PARC and Mayria Porter and Glen Reed representing Internal Audit. Final audit results were discussed.

The views of PARC officials were received on December 11, 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 PARC response was provided within this required timeframe.

Observations and Recommendations

Scope and Methodology

The Parking Authority of River City (PARC) vendor payment activity was reviewed. The operating policies, procedures, and records for the vendor payment activity 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.

A thorough understanding of the PARC vendor payment activity was achieved through interviews of key personnel. Testing was performed on a sample of vendor payment transactions that occurred during the review period, fiscal year 2015 (July 1, 2014 to June 30, 2015). The sample of vendor payment transactions was reviewed to assess accuracy, completeness, and compliance with applicable contracts and Louisville Metro Government Policies and Procedures. Testing was also performed in order to assess the accuracy and completeness of the monthly reimbursements to Louisville Metro Government for expenditures paid on behalf of PARC during the review period. Documentation reviewed included invoices, contracts, financial system reports, and other supporting documentation.

The examination would not reveal all noncompliance issues because it was based on a selective review of data.

Observations

Issues were noted regarding PARC's vendor payment activity. As a result, the effectiveness of the internal control structure needs improvement. Opportunities to strengthen the controls include the following.

- 1) Contractual Issues
- 2) Reimbursement Billing

Details of these begin on the following page.

1) Contractual Issues

- **Noncompliance with Contractual Terms.** There were 2 of 40 instances in which purchases of services were not in compliance with contractual terms.
 - One of the two instances included the purchase of cell phone services at a rate that did not agree to the contractual terms and pricing noted within the contract.
 - One of the two instances included the purchase of services at an hourly rate that was not in agreement with contractual terms and pricing. The services were purchased at a rate of \$80 per hour. However, the agreed upon rate per the contract was \$70 per hour, which resulted in an overpayment of \$10 for each hour of service.
- **Noncompliance with the Louisville Metro Government Purchasing Policy.** There were 5 of 40 instances in which purchases were made that were not in compliance with the Louisville Metro Government Purchasing Policy.
 - One of the five instances included a service that was procured without a contract. The Louisville Metro Government Purchasing Policy requires all purchases of services to be made using a contract.
 - Three of the five instances included the procurement of goods / services that were not included in the itemized listing of goods / services authorized for purchase per the terms of the respective contract. Although, Louisville Metro Government had a valid contract with the vendors at the time of the purchase. Louisville Metro Government Purchasing Policies require an amendment to the existing contract or a new contract for add-ons.
 - One of the five instances included services purchased at a price that did not agree to the price quote.
- **Inadequate Supporting Documentation.** There were issues noted in determining compliance with contractual terms due to inadequate supporting documentation. Adequate supporting documentation was not obtained before processing payment for the good or service. Inadequate supporting documentation impairs the ability to verify that the goods and services were procured in accordance to the contractual terms and price agreement.
 - There were 6 of 40 instances in which it could not be determined if an expenditure was in compliance with the contractual terms due to inadequate supporting documentation.
 - In two of the six instances contractual compliance could not be determined due to missing information regarding web based pricing, item cost and/or markup of goods and services.
 - In two of the six instances contractual compliance could not be determined due to a lack of detail (i.e. job classification) on the invoice.
 - In two of the six instances it could not be determined if charges included on the invoice as “Other” were in compliance with the contract as the invoice nor the contract provided any additional detail regarding the charges. The contract required specific detail regarding charges included as “Other.”
- **Payment Timeliness.** Kentucky Revised Statute 65.140 requires that all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor’s invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor’s subcontractor.

- In 4 of 40 instances it could not be determined if the invoice was paid in a timely manner because the date that the invoice was received was not documented.

Recommendations

Appropriate personnel should consider the following recommendations concerning contractual issues.

- ✓ Appropriate personnel should ensure an effective and appropriate contract is in place with the supplier prior to the procurement of a good / service.
- ✓ Develop and document a formal process for purchase initiation. The process should be guided by Policies and Procedures that consider the following:
 - Clearly indicate the staff that are authorized to request and/or approve a request to purchase goods and services on behalf of PARC.
 - Clearly indicate criterion for purchase request approval, which should include but not be limited to availability of funds, contractual compliance, and compliance with applicable policies and procedures.
 - In addition, appropriate personnel should explore the availability of Louisville Metro Government's SharePoint Purchase Order Request Submission process.
- ✓ Appropriate personnel should have adequate supporting documentation to ensure the expenditure is in compliance with contractual terms prior to the approval of payment. The supporting documentation should:
 - Provide a clear understanding of the goods / services procured from the vendor.
 - Provide enough support to allow a reasonable person to independently verify that the expenditure agrees to the contractual terms.
- ✓ Appropriate personnel should familiarize themselves with the Louisville Metro Government Purchasing Policy regarding the requirements for various types of contracts, including the process for amending an active contract.
- ✓ Appropriate personnel should review all aspects of a contract before awarding it to ensure that all required information is provided.
- ✓ Care should be taken to ensure proper procurement methods are followed as to ensure invoices are processed in a timely manner in compliance with State law. Any situations in which an invoice will not be paid within thirty working days, such as disputes with the supplier, should be properly documented.

Parking Authority of River City Corrective Action Plan

PARC concurs with and will implement the recommendations related to contractual issues. In addition, PARC noted the following:

PARC will develop and document a formal process for purchase initiation including action to comply with the Louisville Metro Purchasing Policy. The policy will give certain staff members the ability to request goods or services for PARC along with the appropriate staff approvals. PARC has contacted OMB for assistance with the Sharepoint P.O. Request Submission process. PARC will develop a formal process to ensure an effective and appropriate contract is in place with the supplier prior to the procurement of a good/service.

PARC will develop a formal process and produce adequate supporting documentation to ensure the expenditure is in compliance with contractual terms prior to the approval of payment.

PARC accounting personnel will familiarize themselves with the Louisville Metro Government Purchasing Policy regarding the requirements for various types of contracts including the process for amending an active contract.

PARC will develop a formal process to insure invoices are processed in a timely manner in compliance with State Law. Any situations in which an invoice will not be paid within thirty working days will be documented.

2) Reimbursement Billing

- **Reimbursement Accuracy and Transparency.** PARC's expenditures are processed and paid by the Louisville Metro Government Office of Management and Budget (OMB). Each month, PARC will reimburse Louisville Metro Government for expenditure payments that were charged to the PARC cost center during the previous month, based on a monthly request for reimbursement (bill).
 - There was 1 of 12 instances in which the expenditures paid on behalf of PARC were not accurately or clearly reflected on the bill. PARC had identified the expenditures that had been paid on their behalf and properly recorded the expenditures as a liability within their internal accounting system. However, it could not be confirmed that PARC has a consistent and formal process in place to reconcile the monthly bill and communicate discrepancies to OMB in a timely manner. OMB issued a bill for the additional expenditures as a result of the audit.

Recommendations

Appropriate personnel should consider the following recommendations concerning reimbursement accuracy and transparency.

- ✓ PARC should track and document the vendor payment activity that occurs during each period. At the end of each period PARC should reconcile the expenditures paid on its behalf to the reimbursement bill and supporting documentation. Any discrepancies should be communicated to OMB and resolved before the bill is paid.
- ✓ The details of the discrepancy have been provided to the responsible agency for review. A bill for the additional expenditures was issued as a result of the audit. The responsible agency will determine the extent of any remedial action needed.

Parking Authority of River City Corrective Action Plan

PARC concurs with but will not implement the recommendation related to reimbursement billing. The PARC will take the following alternative corrective action.

PARC has a consistent and formal process in place to reconcile the monthly City bill. Internal Audit is asking that PARC communicate with OMB and resolve a discrepancy before the bill is paid. PARC agrees to contact OMB directly or via an electronic message about any outstanding issues with the current city bill but resolution of an issue is not practical before the bill is paid. We propose that any discrepancies between the amount billed by OMB and the amount owed by PARC be communicated and resolved within a 90 day window whereby PARC is communicating with the OMB contact about why the discrepancy occurred and why PARC believes that the payable should be paid early or later or not at all. There have been instances in the past where the timeframe is six or more months to resolve an issue with OMB so PARC reserves the right to have this time frame to use as an open communication time that allows both parties to meet, discuss and resolve the issue in a reasonable time frame. The ninety day window will begin with the bill on which the discrepancy first appears. It should also be noted that there can be multiple discrepancies for each time frame of the 90 day window.



The purpose of this survey is to solicit your opinion concerning the quality of the **Parking Authority of River (PARC) City Vendor Payment Activity 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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