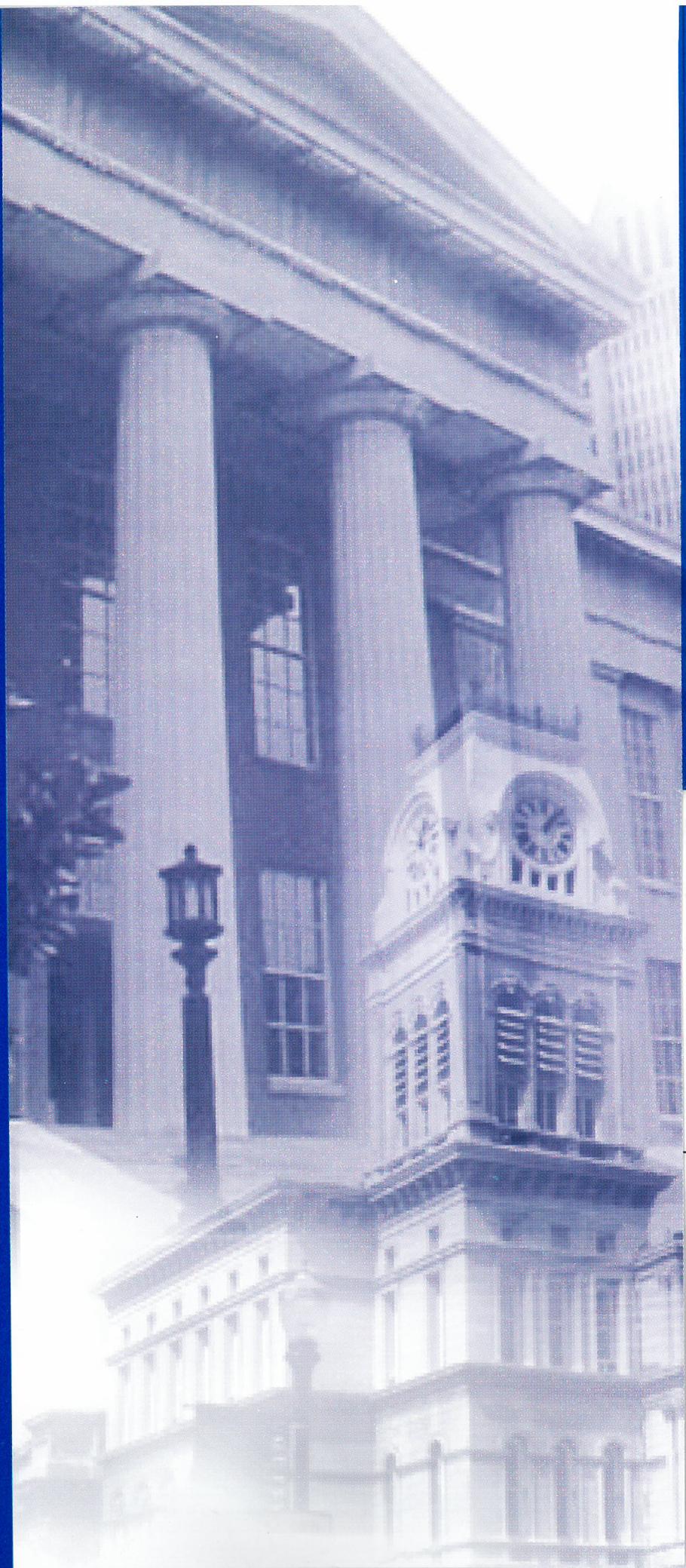




Greg Fischer
Mayor

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

Public Works and Assets

Capital Projects

Audit Report

Public Works and Assets

Capital Projects

February 2015



Table of Contents

Executive Summary 2

Transmittal Letter 3

 Introduction..... 3

 Scope..... 4

 Opinion 4

 Corrective Action Plan..... 5

 Internal Control Rating 6

 Background..... 7

Observations and Recommendations 9

 Scope and Methodology 9

 1) Metro Curb Replacement 10

 2) Metro Sidewalk Repair Program 12

 3) SWMS Recycling Trailers..... 14

 4) Traffic Signals 16

Executive Summary

PROJECT TITLE

Public Works and Assets - Capital Projects

OBJECTIVE AND SCOPE

The objective was to obtain assurance that operational risks are adequately mitigated through the internal control structure. The primary focus was the assessment of expenditure compliance with applicable contracts and to ensure the intended use of funds were in accordance with the capital appropriation. 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 through 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 expenditure activity for the selected projects was in compliance with the intended use of the appropriation. Opportunities exist for improving the internal control structure for the administration of Public Works and Assets capital projects. Examples of the issues include the following.

- There were instances in which project expenditures were not in compliance with the contractual terms.
- There were instances in which the contract and corresponding project expenditures were not in compliance with Louisville Metro Purchasing Policies and Procedures.
- There were instances in which it could not be determined if the project expenditure was in compliance with contractual terms due to the lack of supporting documentation.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CHIEF AUDIT EXECUTIVE

DAVID TANDY
PRESIDENT METRO COUNCIL

Transmittal Letter

February 12, 2015

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

Subject: Audit of the Public Works and Assets- Capital Projects

Introduction

An audit of the Public Works and Assets capital projects was performed. The objective was assessing compliance with the intended use of the appropriation and contractual terms with suppliers. The focus was expenditures made over the life of the project. 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 Public Works and Assets capital projects were reviewed. The objective was assessing compliance with the intended use of the appropriations and contractual terms with suppliers. The review period covered project inception through June 30, 2014. The following four projects were included in the review. The total amount of funding appropriated for each is noted.

- Metro Curb Replacement, \$1,041,268
- Metro Sidewalk Repair Program, \$2,727,516
- SWMS Recycling Trailers, \$149,723
- Traffic Signals, \$179,734

Detailed policies and procedures were not considered within the scope of the review, nor was the bid and award process for supplier contracts.

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 activity was verified to the intended purpose of the appropriation and to the contractual terms for the supplier. 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 Public Works and Assets 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 results include the following.

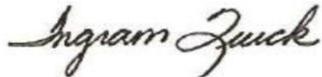
- **Appropriation.** Expenditure activity for the four projects reviewed was in compliance with the intended use of the appropriation. No recommendations were necessary.
- **Contractual.** There were issues regarding contractual compliance of capital project expenditures.
 - There were instances in which project expenditures were not in compliance with the contractual terms.

- There were instances in which the contract and corresponding project expenditures were not in compliance with Louisville Metro Purchasing Policies and Procedures.
- There were instances in which it could not be determined if the project expenditure was in compliance with contractual terms due to the lack of supporting documentation.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. No recommendations were necessary.

Corrective Action Plan

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

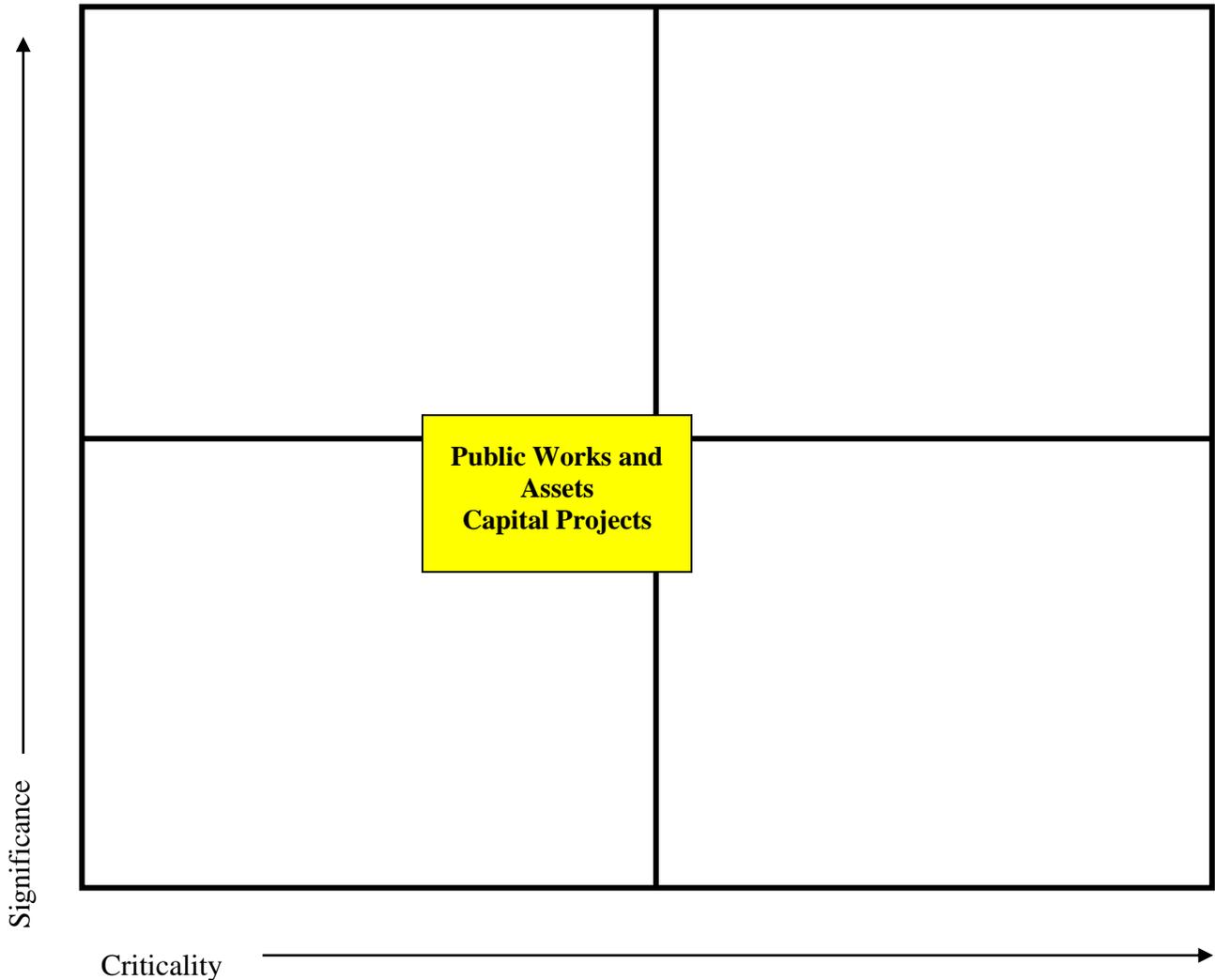
Sincerely,



Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Ethics Committee
Louisville Metro Council President
Director of Public Works and Assets
Louisville Metro External Auditors

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 Louisville Metro Council. The projects involve Public Works and Assets.

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. Overall project scope cannot be significantly changed without the approval of Metro Council. Projects may also be funded through the issuance of bonds. Bond legislation details the intended use of funds and is approved by ordinance enacted by Metro Council.

As of June 30, 2014, Public Works and Assets had a total of 219 active capital projects with expenditures totaling approximately \$36,308,000.

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 Public Works and Assets Capital Projects 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 Public Works and Assets on January 8, 2015. An exit conference was held at the Public Works and Assets office (444 S. 5th Street) on January 26, 2015. Attending were Vanessa Burns, John Cospers and Craig Allen representing Public Works and Assets, and Ingram Quick, Mayria Porter and LaRhanda Trammell representing Internal Audit. Final audit results were discussed.

The views of Public Works and Assets officials were received on February 6, 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 Public Works and Assets’ response was provided within this required timeframe.

Observations and Recommendations

Scope and Methodology

The expenditures for selected Public Works and Assets capital projects were reviewed. The objective was assessing compliance with the intended use of the appropriation and contractual terms with suppliers. The review included expenditures over the life of the project. 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 Public Works and Assets Capital Projects was compiled from various sources. This included reviews of annual capital budget documents and Louisville Metro Government's financial system. The review period covered project inception through June 30, 2014.

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

- Metro Curb Replacement, \$935,230
- Metro Sidewalk Repair Program, \$2,218,618
- SWMS Recycling Trailers, \$136,751
- Traffic Signals, \$147,783

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 activity was verified to the contractual terms for the supplier, as well as the intended purpose of the appropriation. 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 Public Works and Assets capital projects. As a result, the effectiveness of the internal control structure is impaired and needs improvement. Results, along with opportunities noted to strengthen the controls, are as follows.

- 1) Metro Curb Replacement
- 2) Metro Sidewalk Repair Program
- 3) SWMS Recycling Trailers
- 4) Traffic Signals

Details of these begin on the following page.

1) Metro Curb Replacement

Project Summary

This project provides funding for repair and replacement of broken and deteriorated concrete curbs.

Authorizing Legislation and Agency Receipts

Louisville Metro Ordinance #126, Series 2007

Louisville Metro Ordinance #141, Series 2011

Agency Receipts #2011-04

Agency Receipts #2012-09

Authorized Appropriation

\$1,041,268

Observations

There was an issue noted with the administration of the Metro Curb Replacement 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 one issue which included noncompliance with the contract as well as noncompliance with Louisville Metro Purchasing Policies and Procedures.
 - There was one transaction in which services were purchased that was not included in the contract. Louisville Metro Government had a valid contract with the vendor at the time of the purchase. However, the services procured were not included in the itemized listing of services authorized for purchase per the terms of the contract. Louisville Metro Purchasing Policies require an amendment to the existing contract or a new contract for add-ons.
 - The transaction also consisted of an instance of non-compliance in which a fee was charged that, according to the contract, should not have been billed to Louisville Metro Government.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed.



Frankfort Avenue



US 42-Brownsboro Road

Recommendations

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

- ✓ Any negotiations agreed upon by parties subsequent to the bid award should be thoroughly documented and provided to the Purchasing Division of the Office of Management and Budget. Purchasing serves as the custodian for Louisville Metro contracts and therefore their files should contain adequate support documentation to record the purpose and authorization of all purchase orders.
- ✓ Appropriate personnel should carefully review invoices for accuracy, appropriateness, and agreement to contractual terms and price agreement prior to the approval of payment.

Public Works and Assets' Corrective Action Plan

Public Works and Assets concur with the recommendations related to the Metro Curb Replacement Capital Project with implementation targeted for April 2015.

2) Metro Sidewalk Repair Program

Project Summary

This project provides funding to replace defective/hazardous sidewalks adjacent to residential property.

Authorizing Legislation

Louisville Metro Ordinance #119, Series 2012
Louisville Metro Ordinance #107, Series 2013
LeAP Budget Revision #11355

Authorized Appropriation

\$2,727,516

Observations

There were issues noted with the administration of the Metro Sidewalk Repair Program 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 were instances which included noncompliance with the contract as well as noncompliance with Louisville Metro Purchasing Policies and Procedures.
 - There were two instances in which the procurement of goods / services was not in compliance with Louisville Metro Purchasing Policies and Procedures. Although, Louisville Metro Government had a valid contract with the vendors at the time of the purchase. The goods / services purchased were not included in the itemized listing of goods / services authorized for purchase per the terms of the respective contract. Louisville Metro Purchasing Policies require an amendment to the existing contract or a new contract for add-ons.
 - There were four instances in which the goods / services were billed at a rate that did not agree to the terms of the related contract.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed.



1826 Magazine Street



747 S. 5th Street

Recommendations

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

- ✓ Any negotiations agreed upon by parties subsequent to the bid award should be thoroughly documented and provided to the Purchasing Division of the Office of Management and Budget. Purchasing serves as the custodian for Louisville Metro contracts and therefore their files should contain adequate support documentation to record the purpose and authorization of all purchase orders.
- ✓ Appropriate personnel should carefully review invoices for accuracy, appropriateness, and agreement to contractual terms and price agreement prior to the approval of payment.

Public Works and Assets' Corrective Action Plan

Public Works and Assets concur with the recommendations related to the Metro Sidewalk Repair Program Capital Project with implementation targeted for April 2015.

3) SWMS Recycling Trailers

Project Summary

This project funds the purchase and installation of LEED Certified buildings at five recycling drop-off locations.

Authorizing Legislation

Louisville Metro Ordinance #107, Series 2013

Authorized Appropriation

\$149,723

Observations

There were issues noted with the administration of the Solid Waste Management Services' (SWMS) Recycling Trailers 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 were four instances in which compliance with the contractual terms could not be determined due to inadequate supporting documentation. In each instance the invoice noted expenditures based on the percentage of project completion. However, supporting detail regarding the percentage of project completion did not agree to the invoice. Without further detail, Internal Audit could not determine the accuracy of the expenditures or if the expenditures were in accordance with the contract.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed.



7219 Dixie Highway

Recommendations

Appropriate personnel should consider corrective actions to address the issues noted. Specific recommendations 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 of goods provided. Sufficient documentation should be provided to allow a reasonable person to independently verify the expenditure agrees to the contractual terms.

Public Works and Assets' Corrective Action Plan

Public Works and Assets concur with the recommendations related to the SWMS Recycling Trailers Capital Project with implementation targeted for April 2015.

4) Traffic Signals

Project Summary

This project consists of the purchase and installation of traffic signals equipment at locations where engineering studies indicate it is warranted, and at locations with existing signals that warrant modifications to improve traffic flows and citizen safety.

Authorizing Legislation and Agency Receipts

Louisville Metro Ordinance #115, Series 2003
Louisville Metro Ordinance #90, Series 2009

Authorized Appropriation

\$179,734

Observations

There were issues noted with the administration of the Traffic Signals 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 were instances which included noncompliance with the contract as well as noncompliance with Louisville Metro Government Purchasing Policies and Procedures.
 - There was one instance in which the procurement of goods / services was not in compliance with Louisville Metro Government Purchasing Policies and Procedures. Although, Louisville Metro Government had a valid contract with the vendors at the time of the purchase. The goods / services purchased were not included in the itemized listing of goods / services authorized for purchase per the terms of the respective contract. Louisville Metro Purchasing Policies require an amendment to the existing contract or a new contract for add-ons.
 - In one instance the goods / services were billed at a rate that did not agree to the terms of the related contract.
- **Visual Inspection.** The items selected for inspection were located and no issues were noted. The following are images of the items reviewed.



Roy Wilkins and Main Street

Recommendations

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

- ✓ Any negotiations agreed upon by parties subsequent to the bid award should be thoroughly documented and provided to the Purchasing Division of the Office of Management and Budget. Purchasing serves as the custodian for Louisville Metro contracts and therefore their files should contain adequate support documentation to record the purpose and authorization of all purchase orders.
- ✓ Appropriate personnel should carefully review invoices for accuracy, appropriateness, and agreement to contractual terms and price agreement prior to the approval of payment.

Public Works and Assets' Corrective Action Plan

Public Works and Assets concur with the recommendations related to the Traffic Signals Capital Project with implementation targeted for April 2015.



The purpose of this survey is to solicit your opinion concerning the quality of the Public Works and Assets Capital Projects 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 ATTEN: 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

Phone: 502.574.3291

www.louisvilleky.gov/InternalAudit/