



CROWE CHIZEK

October 25, 2002

Mr. Mike Norman, Director, Internal Audit
Office of Internal Audit
City of Louisville
609 West Jefferson Street
Louisville, KY 40202-2768

Dear Mr. Norman:

As part of the City of Louisville's Office of Internal Audit's ("the Office" or "the Department") quality assurance processes, an external review of the Department was conducted as required by the Internal Auditor's *Standards for the Professional Practice of Internal Auditing* ("the IIA Standards") and the United States General Accounting Office's Government Auditing Standards ("the GAO Standards").

Our review process (see "*Review Process*" below for a list of procedures performed) was designed to evaluate the Office's performance and effectiveness in several areas. Our objectives included:

- Evaluating the Office's compliance with the GAO Standards and the IIA Standards as well as providing value-added recommendations for improving the Office of Internal Audit.
- Determining whether the Office is meeting management's expectations and fulfilling the responsibilities set forth in its charter.
- Evaluating the management of the Office in the areas of organizational structure, risk assessment, planning, personnel, training, audit approach and quality, external audit coordination, and communication within the Department.

Compliance with Standards

It is our opinion that the Internal Audit Department of the City of Louisville generally conforms to the Standards issued by the Institute of Internal Auditors and the Government Accounting Office. These standards provide guidance in the areas of organization and independence; professional qualifications and proficiency; scope of work; performance and quality of audit work; the audit reporting process; and management of the internal audit activity. According to the IIA, "generally conforms" is the highest level of compliance and means that an internal audit activity has a charter, policies, and processes that are judged to be in accordance with the IIA Standards.

OBSERVATIONS AND RECOMMENDATIONS

The recommendations outlined below are provided to improve the operating effectiveness of the Department.

Meeting Management's Expectations

The internal auditor, Mike Norman, is well respected by other senior leaders for his independence and judgment.

Based on our interviews, the Department is meeting the expectations of management. In addition to the normal audit work, members of City management often call upon the Office for special projects and advice on various matters.

The Department is seen as one that will work with its auditees as opposed to one that is merely looking for deficiencies, which can be included in an audit report.

Management of the Department

It appears the Department is well run. Many of the recommendations from the prior review have been implemented and appear to make a good internal audit function even better. Also, members of the Department indicated that they believe the Department is well managed and that the staff has the necessary support and tools to perform their work in a professional manner.

Recommendations from the Prior Review

Each of the recommendations from the 1997 review has been evaluated by the Department and has been acted upon to our satisfaction. The Department should be commended for implementing the suggested improvements.

Recommendations from the Current Review

As a result of our review, we believe that the operations of the Office of Internal Audit can be improved by addressing the following areas:

Training

The internal auditors are required to obtain on-going professional education (i.e., training) to keep up with the rapidly evolving internal audit profession and applicable standards. The IIA Standards require a total of 80 hours per auditor over a two-year period, of which 24 hours must be directly related to the government environment and to government auditing to comply with the GAO Standards. Auditor training normally covers areas, such as new auditing techniques (e.g., risk and control self-assessment), management

development (e.g., presentation skills, audit report writing, interviewing techniques) and information technology to name a few. The City Auditor is serious about his staff being adequately trained to perform quality audits.

A review of the Department's training budget and individual staff training history demonstrates a variety of creative approaches used to obtain training at a low cost. The current budget for training is not adequate to maintain a high quality, professional audit function over time. To the extent possible, the Internal Audit Department will need to obtain a sufficient budget to maintain compliance with the applicable standards and continue to meet the growing needs of the Department's audit customers (the combined City and County government).

Information Technology

The City's overall investment in technology, including new applications continues to increase. The City auditor has recognized the increasing importance of technology risks to the City and the increasing need for technology auditing to an effective audit department. However, there are few departmental resources allocated to conducting technology-related audits.

It is our experience that the level of technological complexity present in the City requires expert resources to perform technology audits. A reallocation of existing resources may be an option; however, doing so may impair the Department's ability to perform other critical operational audits and special requests. We recommend this issue be considered in future budget allocations.

Review Process

The Crowe, Chizek and Company LLP external review team completed the following key tasks:

- A. *Two senior members of City Management were interviewed to gain insight into the objectives, responsiveness, and effectiveness of Internal Audit's activities.*
- B. *Each member of the Office of Internal Audit was interviewed.*
- C. *The partner from the City's external audit firm, Strothman & Company, was interviewed.*
- D. *The Office's compliance with the Institute of Internal Auditor's Standards for the Professional Practice of Internal Auditing and the United States General Accounting Office's (GAO's) Government Auditing Standards was evaluated.*
- E. *Seven audits, including work paper documentation, were examined.*
- F. *The organization of the Department and its operations were reviewed.*

We received excellent cooperation from members of the Department and other City of Louisville personnel. We appreciate this opportunity to be of service to the City of Louisville and will be pleased to respond to further questions concerning this report and to furnish any desired information.


Crowe, Chizek and Company LLP

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