



The Office of Internal Audit provides independent, objective assurance and consulting services that add value to and improve Louisville Metro's operations.



Jerry E. Abramson, Mayor
Louisville Metro Council

The key to self assessment is asking how do we know we're doing what we're supposed to do. The following questions can be used to help you assess your internal controls.

Are policies and procedures readily available that cover departmental activities and programs?

Do employees know the policies and procedures that pertain to their job responsibilities?

Are employees familiar with Louisville Metro's code of ethics and principles of behavior?

Are employees required to disclose potential conflicts of interest?

Does the department have a training program for new employees?

Are employee performance evaluations performed and appropriate disciplinary action taken when necessary?

Does the department receive/provide information in a form and time frame that is useful?

Does the department monitor activities through specific performance measures?

Does the person who requisitions goods or services approve the purchase, or does the approver reconcile the monthly financial reports?

Can the person who approves the purchase of goods or services, or the person who maintains and reconciles the accounting records, obtain custody of vendor checks?

Does the person who opens the mail and prepares a listing of checks received make the deposit or maintain the accounts receivable records?

Internal Controls

affects each of us in our daily work. Many internal controls are built into policies, procedures, and guidelines. Through these, we contribute to achieving Louisville Metro's objectives.

DEFINITION

Internal controls are processes designed to provide reasonable assurance that objectives are achieved. The objectives may include:

Effective and efficient operations

Reliable and accurate information

Compliance with applicable laws and regulations.

Safeguarding of assets

In essence, internal controls ensure the right things are done, for the right reasons, the right way, at the right time. Key points about this definition include:

- ▶ People at every level of an organization affect internal control.
- ▶ Effective internal control helps an organization achieve its operations, financial reporting, and compliance objectives.
- ▶ Internal control can provide only reasonable assurance - not absolute assurance - regarding the achievement of an organization's objectives.



WHO IS RESPONSIBLE

A common misunderstanding is that the Office of Internal Audit is responsible for Louisville Metro's internal controls. In reality, the responsibility for internal controls lies with everyone, not with one single individual or department:

- ▶ Management is responsible for ensuring that internal controls are established, properly documented, maintained, and followed.
- ▶ Employees are responsible for adhering to the internal controls.

The Office of Internal Audit assesses the adequacy of existing controls and makes recommendations to management on how to enhance them. It is management's responsibility to evaluate these recommendations and initiate any necessary changes. Internal audit does not implement or change controls or policies.



TYPES OF CONTROLS

Internal controls must be implemented thoughtfully, conscientiously, and consistently. A procedure will not be useful if performed mechanically without understanding the reason for it. Controls can either help prevent undesirable events from occurring, or help detect them after they have occurred. Examples of controls and key characteristics include:

APPROVALS, AUTHORIZATIONS, AND VERIFICATIONS

- Written policies and procedures
- Limits to authority
- Supporting documentation
- Question unusual items
- No "rubber stamps"
- No blank signed forms



TYPES OF CONTROLS (Cont.)

ASSET SECURITY

- Security of physical and intellectual assets
- Physical safeguards
- Perpetual records
- Periodic physical counts
- Comparison of physical to perpetual records
- Investigate differences

INFORMATION SYSTEMS

- Access and physical security
- Data and program security
- Software development
- Program change
- Data center operations
- Disaster recovery

RECONCILIATIONS

- Compare independent data sources
- Identify any differences/unusual items
- Investigate differences

REVIEWS OF OPERATING PERFORMANCE

- Budget to actual comparison
- Current to prior period comparison
- Use of performance indicators
- Investigate unexpected results

SEGREGATION OF DUTIES

- No one person should...
- Initiate transaction
- Approve transaction
- Record transaction
- Reconcile balances
- Handle assets
- Review reports
- At least two sets of eyes

For assistance in evaluating your internal controls, contact the Office of Internal Audit.