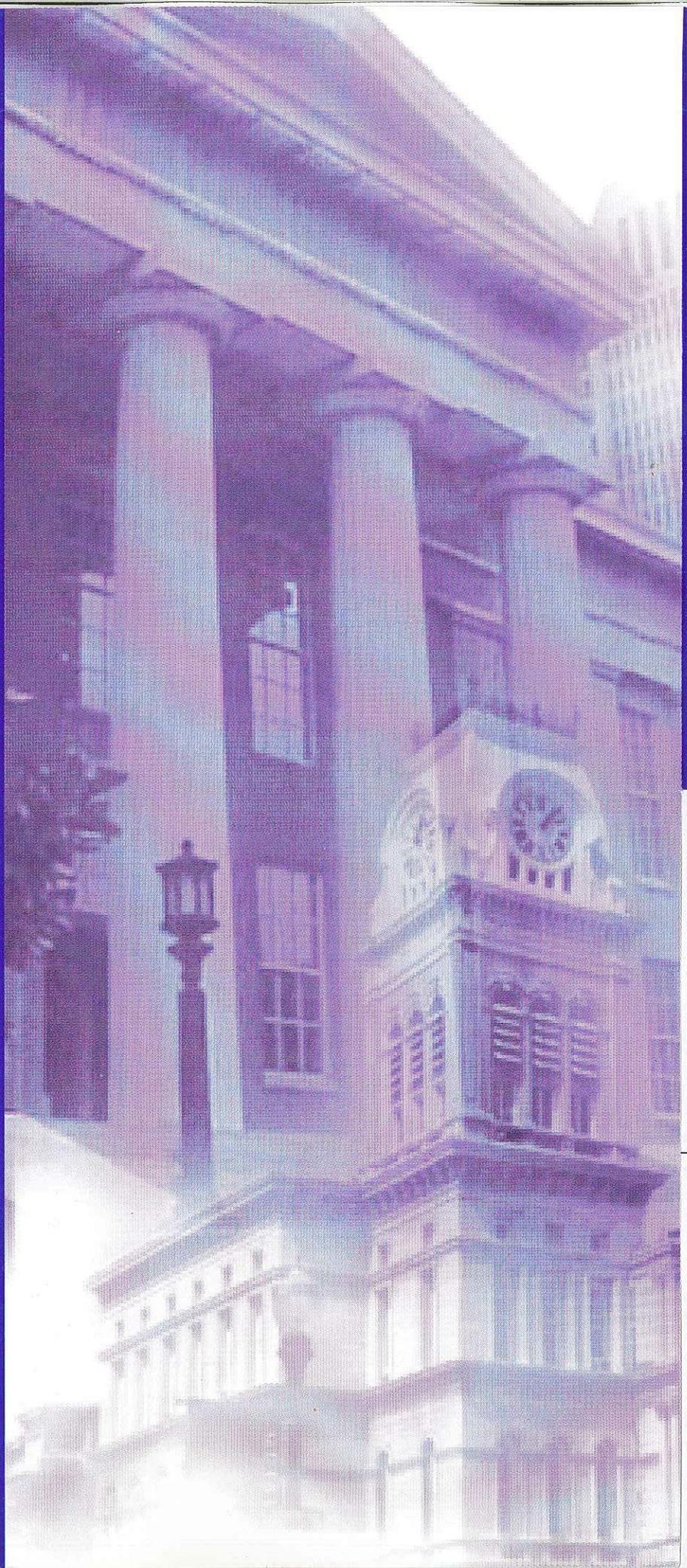




Greg Fischer
Mayor

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

Human Resources

Financial Operations

Report

Human Resources

Financial Operations

February 2012



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Executive Summary

PROJECT TITLE

Human Resources - Financial Operations Review

OBJECTIVE AND SCOPE

The objective was to obtain assurance that operational risks are adequately mitigated through the internal control structure. The primary focus of the review was the fiscal and operational administration of Human Resources' payroll and procurement activity. This included how activity is processed, recorded, and monitored.

Testing included activity occurring during fiscal year 2010 (July 1, 2009 to June 30, 2010) and the first half of fiscal year 2011 (July 1, 2010 to December 31, 2010). The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.

INTERNAL CONTROL ASSESSMENT

Satisfactory - Procurement

Satisfactory – Payroll

RESULTS

Payroll. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Examples include the following.

- Prior period adjustments were not adequately documented, which impacted the accuracy and integrity of payroll activity.
- Timecard reports were not reviewed and approved prior to the issuance of payroll as required by Louisville Metro Timekeeping Policies.
- Monitoring and reconciliation of the payroll activity was not performed.

Procurement. While the overall rating is satisfactory, there was an opportunity to strengthen the internal control structure.

- Two of the twenty five invoices reviewed were not paid in the thirty day limit as required by Kentucky Revised Statutes.



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM QUICK, CIA, CFE
CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

February 23, 2012

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

Subject: Audit of Human Resources' Financial Operations

Introduction

An audit of Human Resources' financial operations was performed. The primary focus of the review was the operational and fiscal administration of the activity. This included how activity is processed, recorded, and monitored. The objective was to obtain assurance that 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 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 procedures for the administration of Human Resources' payroll and procurement activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity. Tests of sample data were performed on activity from fiscal year 2010 (July 2009 through June 2010) and the first half of fiscal year 2011 (July 2010 through December 2010). This included how activity was processed, recorded, monitored and reported. 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 reveal all issues because it was based on a selective review of data.

It is important to note the audit period was prior to centralization of business office functions within the Office of Management and Budget.

Opinion

It is our opinion that the internal control structure for the administration of Human Resources' procurement and payroll activity is satisfactory. The internal control rating for each area reviewed is on page 5 of this report. These ratings quantify our opinion on internal controls, and identify areas requiring corrective action. While the overall rating is satisfactory, some opportunities to strengthen the internal controls structure were noted. Examples include the following.

- **Payroll.**

- Prior period adjustments were not adequately documented, which impacted the accuracy and integrity of payroll activity.
- Timecard reports were not reviewed and approved prior to the issuance of payroll as required by Louisville Metro Timekeeping Policies.

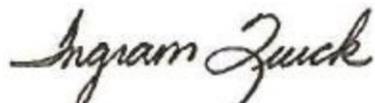
- **Procurement.**

- Two of twenty-five supplier payments reviewed were not processed within thirty working days as required by statutory law.

Corrective Action Plan

Representatives from Human Resources have reviewed the results and are committed to addressing the issues noted. Human Resources' corrective action plans are included in the Observations and Recommendations section of this report. We will continue to work with Human Resources to ensure the actions taken are effective to address the issues noted.

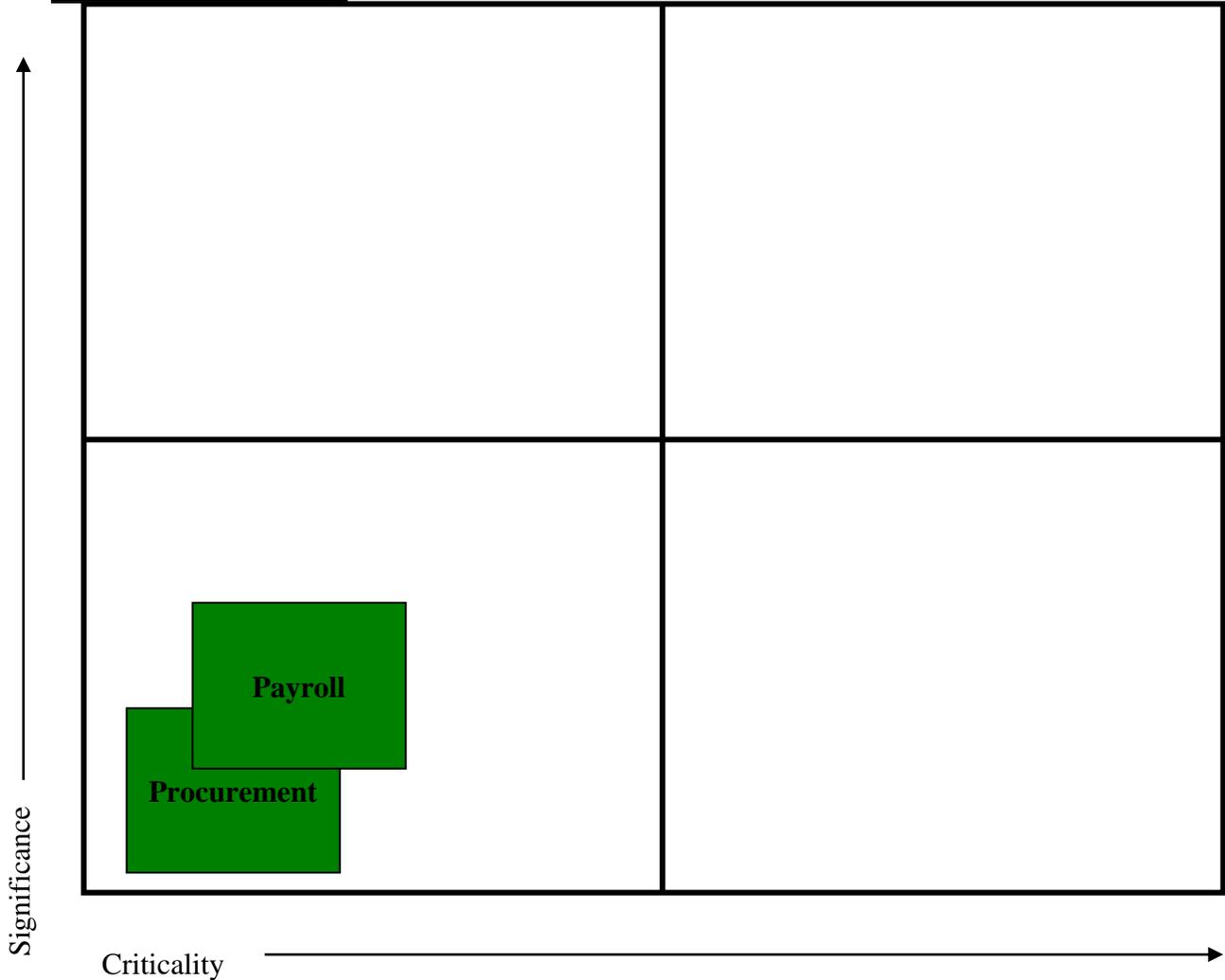
Sincerely,

A handwritten signature in cursive script that reads "Ingram Quick".

Ingram Quick, CIA, CFE
Chief Audit Executive

cc: Director of Human Resources
Louisville Metro Council Government Accountability and Ethics Committee
Louisville Metro External Auditors

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	<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 Human Resources Department provides personnel services to Louisville Metro Government employees and departments in accordance with legal mandates. Personnel services provided by Human Resources include, but are not limited to recruitment, management of labor contracts and administration of employee training. Further, the Human Resources Department also develops and maintains Louisville Metro policies regarding personnel, compensation and benefits.

During fiscal year 2010 Human Resources' payroll related expenditures were approximately \$1,774,000 and \$853,000 during the first half of fiscal year 2011. Supplier payments were approximately \$983,000 during fiscal year 2010 and \$409,000 during the first half of fiscal year 2011. The supplier amounts exclude payments of out of town travel and capital projects. Human Resources had 42 positions during fiscal year 2010. This included full and part-time employees.

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 previous review of Human Resources' financial operations 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 Human Resources on January 10, 2012. It was determined that a formal exit conference was not necessary.

The views of Human Resources officials were received on 2/21/12 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 Office of Internal Audit agreed to extend the required timeframe to respond to the draft audit report. Human Resources’ response was provided within the timeframe.

Observations and Recommendations

1) Payroll

Scope

Human Resources' procedures for administering payroll were reviewed through interviews with key personnel. The primary focus of the review was the operational and fiscal administration of the activity. Examinations were performed to determine whether activity was complete, accurate and in compliance with Louisville Metro Payroll and Timekeeping Policies. Documentation reviewed included payroll documents, official timecard records, Louisville Metro personnel policies and PeopleSoft records.

The audit review period included fiscal year 2010 (July 2009 through June 2010) and the first half of fiscal year 2011 (July 2010 through December 2010). A sample of two pay periods was judgmentally selected for review. All personnel were selected from each of the pay periods to review the validity and accuracy of the payroll.

Additional audit procedures included reviewing employee addresses and direct deposit bank account information. Also, activity for regular part-time employees was examined to verify proper contributions were paid to the retirement system when applicable. The review would not reveal all issues because it was based on a selective review of data.

Observations

The internal control structure for Human Resources' payroll activity is satisfactory. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Specific results are as follows.

- **Prior Period Adjustments.** Human Resources employs the use of PeopleSoft's self-service function. Under the self-service function, an employee has the capability of entering time throughout the pay period and after the pay period closes. Entries made after the pay period closes are considered to be prior period adjustments. These adjustments can impact the accuracy of the respective timecard reports if new reports are not run after adjustments are made (or if documentation for the adjustments is not maintained).
 - There were two instances in which the employee's pay data (e.g., number and type of hours) did not agree to the timecard reports. These were due to prior period adjustments. Documentation of the prior period adjustments was not included with the timecard reports. This made it appear that the timecard report, which is the official payroll record, was incorrect.
- **Timecard Report Timeliness.** Louisville Metro policy requires that timecard reports be reviewed and signed or otherwise approved by the appropriate supervisor prior to the issuance of payroll. Human Resources does not print the final timecard reports for review and approval until after payroll has been issued.
 - For one period reviewed, an employee's payable time could not be verified as the record was absent from the final timecard reports. The reports were printed for review and approval approximately three weeks after the issuance of payroll.

Following the issuance of payroll, the employee's PeopleSoft status was changed to inactive due to resignation of employment from Metro.

- **Monitoring and Reconciliation.** Human Resources does not reconcile the time reports that are generated by the Office of Management and Budget's Payroll department. Payroll expenses are not reconciled between Payroll reports and what is booked in the LeAP financial system. Payroll expenses should be monitored to ensure that budgeted personnel expenses are not exceeded and that task codes are used appropriately. Also time accrual and use reports, and prior period adjustment reports are not reconciled to what an employee actually has accrued or used for the pay period.

Recommendations

Appropriate Human Resources' personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ Prior period payroll adjustments should be properly documented. The documentation is needed so that any discrepancy between the timecard report and the actual pay is explained and justified. The Office of Management and Budget issued a directive in August 2010 requiring the generation of a new timecard report for any employee with a prior period adjustment. The timecard report with adjustments should be distributed for proper signatures and maintained with the timecard reports for the effective period.
- ✓ The official time keeper for Human Resources should work to ensure compliance with Louisville Metro Timekeeping Policies by tracking the distribution and timely return of the Timecard Reports to and from the various supervisors.
- ✓ A formal, documented payroll reconciliation process should be implemented. This should include the review of information contained on the PeopleSoft reports and verification of accurate postings to the financial system. Exceptions should be investigated and properly documented. There should be documented evidence kept on file that indicates the monitoring and reconciliation was performed. In order to promote proper segregation of duties, an individual independent of the actual processing of activity should at least review the reconciliations.

Human Resources Corrective Action Plan

Human Resources is accepting of the recommendations and will begin implementation.

2) Procurement

Scope

Human Resources' procedures for administering procurement activity were reviewed through interviews with key personnel. The primary focus of the review included the operational and fiscal administration of the activity. This included assessing whether activity was processed, recorded, monitored and reported accurately and appropriately. The objective was to obtain assurance that the risks are adequately mitigated through the internal control structure.

Tests of sample data were performed on transactions from fiscal year 2010 (July 2009 through June 2010) and the first half of fiscal year 2011 (July 2010 through December 2010). Procurement data was obtained from Louisville Metro's financial system. A sample of twenty-five transactions was judgmentally selected for review. Transactions relating to out of town travel and capital projects were excluded from this review.

In addition, all suppliers receiving payments of more than \$10,000 from Human Resources during fiscal year 2010 were identified. Activity for these suppliers was reviewed to ensure compliance with contractual requirements in Louisville Metro's procurement policies. The examination would not reveal all issues because it was based on selective review of data.

Observations

The internal control structure for Human Resources' procurement activity is satisfactory. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Specific results are as follows.

- **Payment Timeliness.** Kentucky Revised Statutes requires that Louisville Metro Government pay suppliers within thirty working days of the receipt of the invoice. Of the twenty-five invoices reviewed, two were not paid within the thirty day limit. The payments for the two invoices ranged from thirty-one to seventy days after the limit.

Recommendations

Appropriate Metro personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ Care should be taken 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.

Human Resources Corrective Action Plan

The Department's business office was dissolved with the centralization of Metro business functions. The Department is unable to provide a follow up response to the audit issues related to procurement. The procurement process and related documentation is managed by the Metro Office of Management and Budget. The Department is no longer the custodian of records related to these audit issues.

Office of Internal Audit

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