

Audit Plan

Office of Internal Audit

Office of Internal Audit

Fiscal Year 2008 Audit Plan

July 2007



FY 2008 Audit Plan

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OFFICE OF INTERNAL AUDIT

LOUISVILLE, KENTUCKY

JERRY E. ABRAMSON
MAYOR

MICHAEL S. NORMAN, CIA, CFE, CGAP
CHIEF AUDIT EXECUTIVE

RICK BLACKWELL
PRESIDENT, METRO COUNCIL

Transmittal Letter

July 9, 2007

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Fiscal Year 2008 Audit Plan

Introduction

Enclosed is the fiscal year 2008 audit plan for the Office of Internal Audit. This outlines the activities where internal audit resources will be dedicated. Professional internal audit standards, as well as the Office of Internal Audit Charter (ordinance), require the preparation of an audit plan. In accordance with protocol, this plan does not require action by the Mayor or the Metro Council Audit Committee.

Methodology

The framework for the methodology, and the actual process for developing the audit plan, is explained in the following.

Framework

This plan was developed using a risk-based methodology. The methodology incorporates the COSO - Enterprise Risk Management framework. This is the most current risk model used in the internal audit profession. The approach used allows for evaluation of Metro Departments as well as major business processes in a systematic,

consistent framework. By using this approach, the Office of Internal Audit (OIA) is better able to dedicate resources that help ensure Louisville Metro Government achieves its strategic objectives.

Process

The following details the process for developing the audit plan.

- 1. Identify Louisville Metro's Audit Universe.** All audit units (e.g., programs, processes) for Louisville Metro Government were identified. These units constitute the audit universe for Louisville Metro Government. The identification was achieved using a variety of sources, including organizational charts, institutional knowledge, financial system data, enterprise policies and procedures, budgetary documents, and input from key stakeholders (e.g., Mayor, Metro Council Audit Committee, Louisville Metro External Auditors). There were a total of 1,063 auditable units identified.

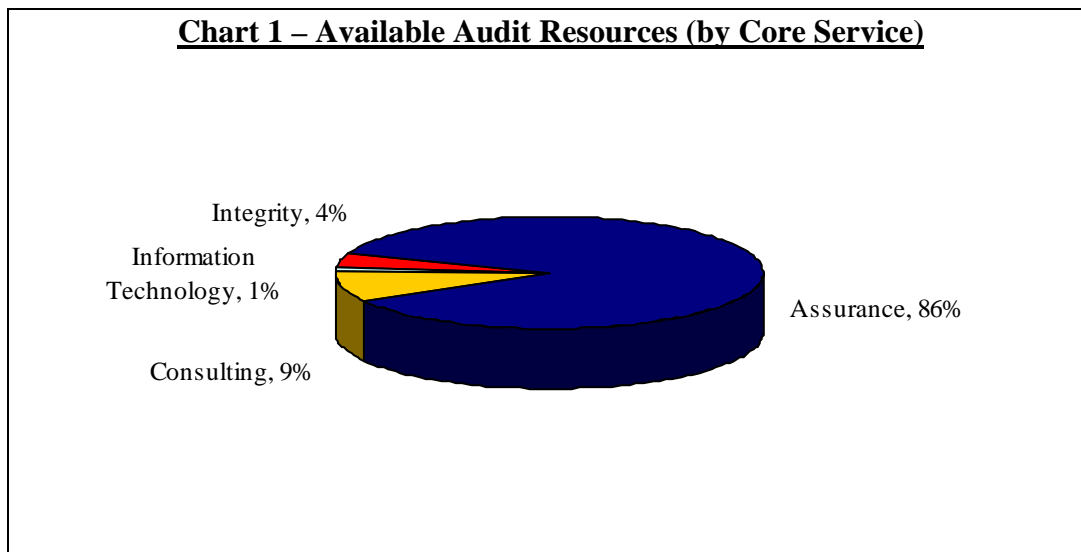
- 2. Stratify Audit Universe.** Louisville Metro's audit universe was stratified to identify the units that should be covered by other auditors (e.g., external, state, federal) and those that pertain to the Office of Internal Audit. The Office of Internal Audit's core service for each audit unit was determined. The OIA's audit universe consists of 595 audit units.

- 3. Risk Assessment.** The risk assessment approach is based on the COSO - Enterprise Risk Management framework. Eleven different risk factors were used to evaluate each audit unit in the Office of Internal Audit's universe. The factors included items such as prior audit results, complexity of operations, and relevance to strategic objectives. The units were ranked as high, medium, or low risk. There were a total of 275 audit units ranked as high risk.

- 4. Identification of Major Risks.** Louisville Metro's major risks, from an internal audit perspective, were identified. The identification of these risks helps ensure resources are allocated to the most critical areas and processes. The major risks identified are in Table 1.

Table 1 - Louisville Metro Government's Major Risks		
Governance	Operational	Human Resources
<ul style="list-style-type: none"> • Organizational Structure • Policies and Procedures • Compliance • Oversight • Ethics 	<ul style="list-style-type: none"> • Process design and execution • Quality of services • Capacity • Communication • Privacy • Complexity 	<ul style="list-style-type: none"> • Pay for time worked • Cost of benefits • Succession planning / loss of institutional knowledge • Culture • Change management
Finance and Accounting	Information Technology	Assets
<ul style="list-style-type: none"> • Revenue • Reliability of financial information • Paying suppliers timely and accurately • Procurement of goods and services 	<ul style="list-style-type: none"> • Maximizing benefits of system functionalities • Security • Business interruption 	<ul style="list-style-type: none"> • Safeguarding • Accountability • Reputation • Fiduciary responsibilities • Management of facilities

5. **Office of Internal Audit Resources.** The available resources, (i.e. staff man-hours) for the Office of Internal Audit were determined. Available project hours were calculated after adjusting for staff's paid leave time, required training, and administrative tasks (e.g., staff meetings). The available resources were allocated by core service as illustrated in the following.



It should be noted that Information Technology requires the assistance of external consultants. The allocation represents OIA staff hours only, not the financial resources for the IT audit consultants.

- 6. Allocation of OIA Resources.** The Office of Internal Audit's resources were allocated to each of the projects ranked as high risk. This was done in order to provide complete coverage of these projects. The audit cycle required to provide this coverage is approximately 8.7 years.
- 7. Audit Plan Completion.** The final audit plan was developed by assigning the audit units (with OIA resources allocated) to a specific fiscal year. The capacity and capability of the Office of Internal Audit was evaluated to ensure the project can be performed. In some cases, such as Information Technology services, external consultants are required. In developing the final plan, the following factors were considered:
- Alignment with Metro Government's core strategic objectives
 - Public Safety
 - Economic Development
 - Quality of Life
 - Basic Governmental Services
 - Enterprise-wide processes and tasks
 - Mitigation of Louisville Metro Government's major risks
 - Impact on service delivery efforts
 - Coverage of all strategic objectives and Louisville Metro Executive Departments

Audit Plan

The fiscal year 2008 audit plan is presented in the following section of this document. It is important to note that the audit plan is a flexible document that is intended to allow for changes as circumstances warrant. While the Office of Internal Audit strives to follow the plan, unforeseen circumstances require the ability to act quickly and re-allocate resources appropriately. A summary of resource allocation by Louisville Metro Government Department is in Chart 2 in the Appendix.

Conclusion

The audit plan demonstrates the Office of Internal Audit's commitment to its mission of providing value added internal auditing services. These services ultimately help Louisville Metro Government achieve its core strategic objectives. The methodology also illustrates the "most bangs for the buck" approach in leveraging resources to provide quality professional internal auditing services.

If you have any questions, or wish to discuss any of these items in further detail, please let me know.

Sincerely,

A handwritten signature in blue ink that reads "Michael S. Norman". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Michael S. Norman, CIA, CFE, CGAP
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council
Deputy Mayors
Louisville Metro External Auditors

Fiscal Year 2008 Audit Plan

The audit plan is in order by the Office of Internal Audit's core services. Within each core, the specific type of service is presented. Under each type of service, the project is listed. The order of presentation within each core service is not meant to represent prioritization; it is only done for ease of use. The project number noted is for reference to OIA's long range audit plan only.

The detailed audit plan, which begins on the following page, covers the following core services.

I. Assurance Services

- ✓ Capital Projects
- ✓ Compliance
- ✓ Expenditures
- ✓ Operational
- ✓ Revenue

II. Consulting Services

- ✓ Special Requests
- ✓ Advice and Information
- ✓ Consultation
- ✓ Committees
- ✓ Education / Training

III. Information Technology Audit Services

- ✓ IT Technical

IV. Integrity Services

- ✓ Special Investigations
- ✓ Fraud Detection Best Practices

I. Assurance Services

Capital Projects

These reviews provide assurance that risks associated with capital projects (e.g., acquisition, development, construction, implementation of capital assets) are adequately mitigated.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Police	N/A	Capital Projects	101.06
Public Works and Assets	Public Works	Capital Projects	101.12

Compliance

These reviews provide assurance that operational activities are performed in compliance with applicable laws, regulations, and policies.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Cable Television	102.05
Enterprise	N/A	Ethics Program Assessment	102.11
Enterprise	N/A	Supplier Payment Timeliness	102.26
Parks and Recreation	Recreation	Summer Camps	102.30
Police	Narcotics	Disposals	102.31

Expenditures

These reviews provide assurance disbursement activity risks are sufficiently mitigated so that accountability for public funds is achieved in an efficient and effective manner.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Miscellaneous Services	103.09

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Overtime (non-scheduled)	103.16
Enterprise	N/A	Salaries and Wages	103.17
Enterprise	N/A	Refreshments	103.21
Enterprise	N/A	Utilities	103.28
Police	N/A	Court Pay	103.36

Operational

These reviews provide assurance that risks are sufficiently mitigated so that departments / programs can achieve operational objectives in an efficient, effective, and accountable manner.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Economic Development	Metro Development	METCO Loans	104.03
Enterprise	N/A	Audit Follow-up	104.14
Enterprise	N/A	Federal and State Grants	104.16
Housing and Family Services	Housing	Home Repair	104.32
Housing and Family Services	Housing	Community Housing Development Organizations	104.33
Police	N/A	Property Room	104.47
Public Health and Wellness	N/A	Self Insurance Trust Fund	104.53
Public Works and Assets	Public Works	Vacant Lots Program	104.58
Related Agencies	Louisville Zoo	Louisville Nature Center	104.66

Revenue

Revenue is inherently risky. This risk is intensified in a governmental entity where goods / services do not directly correlate to revenue. These reviews address the miscellaneous areas that may not be addressed by external auditors or other oversight entities, and are intended to provide assurance that risks are adequately mitigated.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Codes & Regulations	Inspections, Permits and Licenses	Alcoholic Beverage Licenses and Permits	105.01
Enterprise	N/A	Code Enforcement Board Penalty Fees	105.14
Enterprise	N/A	Miscellaneous Revenue	105.18
Parks and Recreation	N/A	Golf Course Receipts	105.32
Public Health and Wellness	N/A	Environmental Health Services	105.38
Public Protection	Animal Services	Operations Receipts	105.43
Public Protection	Emergency Medical Services	Billing and Collection	105.52
Related Agencies	Waterfront Development Corporation	Belle of Louisville	105.66

II. Consulting Services

In general, consulting services are initiated by methods other than the annual risk assessment. They may or may not require significant audit resources, and are intended to be value-added for the client.

Special Requests

These requests address a wide range of issues, and are important to Louisville Metro Government's operations.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Special Requests	201.01
Mayor's Office	N/A	Special Requests	201.02
Metro Council	N/A	Special Requests	201.03

Advice and Information

This service is provided to help identify business best practices, and to ensure major risks are identified and mitigated as needed. These projects do not require a significant investment of internal audit resources.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Special Requests	202.01
Mayor's Office	N/A	Special Requests	202.02
Metro Council	N/A	Special Requests	202.03

Consultation

This service is provided to help identify business best practices, and to ensure major risks are identified and mitigated as needed. These projects generally require a significant investment of internal audit resources.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Codes & Regulations	Inspections, Permits and Licenses	Permit Refund Process	203.01
Enterprise	N/A	Business Manager Curriculum Development and Training	203.08
Enterprise	N/A	Credit Card Processes	203.02
Enterprise	N/A	Federal False Claims Act	203.03
Enterprise	N/A	Pay for Time Worked	203.05
Enterprise	N/A	Performance Measures	203.06
Enterprise	N/A	Policies and Procedures Development and Review	203.07
Related Agencies	KentuckianaWorks	Welfare to Work Federal Audit	203.09

Committees

Committee participation is a value-added service that leverages the Office of Internal Audit's expertise in helping find solutions to critical issues. In order to maintain independence, participation is limited to ex-officio (non-voting, non-decision making) status.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Fiscal Agent Agreements	204.01
Enterprise	N/A	PeopleSoft Users Group	204.02

Education / Training

This proactive service allows sharing of the Office of Internal Audit's expertise and experience in critical operational issues.

<i>Department</i>	<i>Division</i>	<i>Project Name</i>	<i>Project Number</i>
Enterprise	N/A	Fraud Awareness	205.01
Enterprise	N/A	Identity Theft	205.02
Enterprise	N/A	Privacy Controls	205.03
Enterprise	N/A	Self Assessment Guide of Best Practices	205.04

III. Information Technology Audit Services

IT Technical

These highly technical reviews require assistance from external partners and contractors. A long-range IT audit plan was developed to address IT risks and critical areas. Performance of these projects is dependent on financial resources available for external partners since these cannot be performed internally.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Public Protection	MetroSafe	Computer-aided Dispatch System	301.26
Technology	N/A	External and Internal Penetration Testing	301.16

IV. Integrity Services

Special Investigations

These investigations are performed until sufficient evidence is gathered to determine if the matter should be referred to other authorities (e.g., Law Enforcement, Human Resources), and assisting as needed after referral. These require a substantial investment of internal audit resources.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Integrity Investigations	401.01

Fraud Detection Best Practices

These projects incorporate best practices in fraud detection and prevention. This proactive service is intended to help prevent fraud as well as to support a strong anti-fraud environment.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
Enterprise	N/A	Fraud Risk Self Assessment	402.02

Appendix

Resource Allocation by Louisville Metro Department

Chart 2 depicts the resource allocation (audit hours) for the projects listed in this plan. This chart is categorized by Louisville Metro Government Department (or Enterprise if applicable to the entire organization). This is included for informational purposes only. It does not include financial resources allocated for IT audit services.

