

# Audit Plan

Office of Internal Audit

## Office of Internal Audit

### Fiscal Year 2010 Audit Plan

July 2009



FY 2010 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

DAVID W. TANDY  
PRESIDENT METRO COUNCIL

**Transmittal Letter**

July 29, 2009

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

**Subject: Fiscal Year 2010 Audit Plan**

**Introduction**

Enclosed is the fiscal year 2010 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 (Metro Ordinance §30.35), require the preparation of an audit plan. In accordance with protocol, this plan does not require action by the Mayor or the Metro Council Government Accountability and Oversight 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.

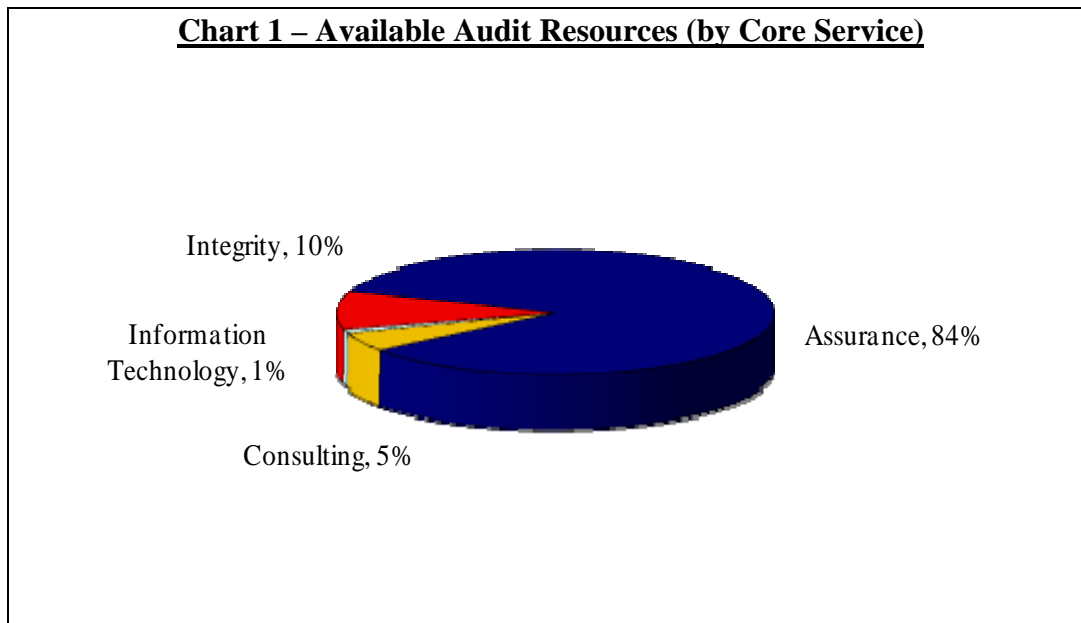
## Process

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.
  - There were a total of 1,511 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 762 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 400 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	External	Human Resources
<ul style="list-style-type: none"> <li>• Organizational structure</li> <li>• Compliance with laws and regulations</li> <li>• Ethics</li> <li>• Policies and procedures</li> <li>• Independent oversight</li> </ul>	<ul style="list-style-type: none"> <li>• Fiscal and economic conditions</li> <li>• Capital availability</li> <li>• Federal stimulus requirements</li> <li>• Customer expectations</li> <li>• Asset devaluation</li> <li>• Energy availability and cost</li> </ul>	<ul style="list-style-type: none"> <li>• Pay for time worked</li> <li>• Cost of benefits</li> <li>• Knowledge, skills and abilities</li> <li>• Capacity</li> <li>• Succession planning</li> </ul>
Operational	Information Technology	Infrastructure
<ul style="list-style-type: none"> <li>• Quality of services</li> <li>• Capacity of resources</li> <li>• Communication</li> <li>• Strategic partners and suppliers</li> <li>• Complexity of operations</li> <li>• Reputation</li> </ul>	<ul style="list-style-type: none"> <li>• Maximizing benefits of system functionalities</li> <li>• Security</li> <li>• Business interruption</li> <li>• Privacy of customer information</li> <li>• E-Discovery and document management program</li> </ul>	<ul style="list-style-type: none"> <li>• Reliability and transparency</li> <li>• Accountability</li> <li>• American Recovery and Reinvestment Act</li> <li>• Safeguarding of assets</li> <li>• Fiduciary responsibilities</li> </ul>

5. **Office of Internal Audit Resources.** The available resources (i.e., staff 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). This determination is based on a full staff complement. The available resources were allocated by core service as illustrated in the following.



- It should be noted that Information Technology (IT) 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 coverage of all high risk areas is approximately 12.2 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 Departments

### **Audit Plan**

The fiscal year 2010 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 reallocate 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 bang 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,



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

cc: Louisville Metro Council Government Accountability and Oversight Committee  
Louisville Metro External Auditors

## **Fiscal Year 2010 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. In addition, projects from prior years that are yet to be completed are noted since OIA resources will be dedicated to these in Fiscal Year 2010.

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**

- ✓ 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>
<b>Enterprise *</b>	N/A	Miscellaneous Building Repairs & Minor Renovations	101.20
<b>Public Protection</b>	Emergency Management Agency / MetroSafe	Capital Projects	101.10
<b>Technology Services</b>	Information Technology	Capital Projects	101.16

\* Prior year project that is not yet completed.

## 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>
<b>Enterprise</b>	N/A	Commercial Drivers License	102.24
<b>Enterprise</b>	N/A	Grant Reporting - Payroll Accruals	102.39
<b>Enterprise</b>	N/A	Policy - Secondary Employment Disclosure	102.41
<b>Enterprise</b>	N/A	Policy - Use of Volunteers (Work Release)	102.33
<b>Police</b>	Narcotics	Disposals	102.31

## Expenditures

These reviews provide assurance that 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>
<b>Economic Development</b>	N/A	4 <sup>th</sup> Street Forgivable Loan	103.16
<b>Enterprise</b>	N/A	Payroll - Salaries, Wages, and Overtime	103.17
<b>Enterprise</b>	N/A	Payroll - Vacation Leave Pay at Termination	103.65
<b>Public Protection *</b>	Emergency Medical Services	Fleet Charges	103.57
<b>Public Works and Assets *</b>	Solid Waste Management Services	Landfill / Sanitation Services	103.44

\* Prior year project that is not yet completed.

## 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>
<b>Economic Development</b>	Downtown Management District	Payroll	104.59
<b>Enterprise</b>	N/A	Audit Follow-up	104.14
<b>Enterprise</b>	N/A	American Recovery and Reinvestment Act	104.71
<b>Enterprise</b>	N/A	Budget Revisions	104.78
<b>Enterprise</b>	N/A	Business Office Knowledge, Skills, Abilities	104.43
<b>Enterprise</b>	N/A	Capital Cumulative Reserve Fund - Reporting to Council	104.91
<b>Enterprise</b>	N/A	E-Transparency	104.95
<b>Enterprise</b>	N/A	Journal Vouchers	104.66
<b>Office of Management and Budget</b>	Revenue Commission	Revenue Collections, Fees, TIFs	104.67 (10)
<b>Police</b>	N/A	Benefits - KLEPF	104.41 (08)
<b>Police</b>	N/A	E-Subpoena System	104.39 (10)
<b>Police</b>	N/A	Property Room - New Record Management System	104.100
<b>Public Protection</b>	Corrections	Money Collection Systems - Manual Processes	104.101
<b>Related Agencies</b>	Office of Internal Audit	Annual Quality Assessment Review (Internal)	104.102

## 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 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>
<b>Enterprise</b>	N/A	Hazardous Material Inspection Fees	105.28
<b>Enterprise</b>	N/A	Privileges	105.75
<b>Enterprise</b>	N/A	Reserved State Funds	105.31
<b>Parks and Recreation *</b>	N/A	Recreation Receipts (ACTIVE System)	105.34
<b>Parks and Recreation *</b>	N/A	Tennis Center	105.87

\* Prior year project that is not yet completed.

## 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.

## 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>
<b>Enterprise</b>	N/A	Special Requests	202.01
<b>Mayor's Office</b>	N/A	Special Requests	202.02
<b>Metro Council</b>	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. These involve a wide range of issues that are important to Louisville Metro Government's operations.

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
<b>Codes and Regulations *</b>	Inspections, Permits and Licenses	Outside Collection Agency	202.01
<b>Codes and Regulations *</b>	Inspections, Permits and Licenses	Permit Refunds / Escrow Account	202.02
<b>Enterprise *</b>	N/A	American Recovery and Reinvestment Act	202.05
<b>Enterprise</b>	N/A	Annual Financial Audit	202.06
<b>Enterprise</b>	N/A	E-Transparency	202.07
<b>Enterprise</b>	N/A	Financial Condition Report	202.08
<b>Enterprise *</b>	N/A	FTC Identity Theft Red Flag Rules	202.10
<b>Enterprise</b>	N/A	Hansen (Midas) - Upgrade, Business Processes	202.12
<b>Enterprise</b>	N/A	Special Requests	202.14
<b>Human Resources *</b>	N/A	Policy - Code of Ethics	202.15
<b>Human Resources</b>	N/A	Policy - Secondary Employment	202.16
<b>Mayor's Office</b>	N/A	Special Requests	202.17
<b>Metro Council *</b>	N/A	Ethics Ordinance	202.18
<b>Metro Council</b>	N/A	Special Requests	202.19
<b>Parks &amp; Recreation</b>	N/A	Otter Creek Park Contract	202.20

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
<b>Public Protection *</b>	Animal Services	Adoption Activity - Satellite Locations	202.24
<b>Related Agencies</b>	Office of Internal Audit	Annual Report of Activities	202.21
<b>Related Agencies</b>	Office of Internal Audit	Internal Audit Best Practices	202.22
<b>Related Agencies</b>	Office of Internal Audit	Public Sector Audit Group	202.23

\* Prior year project that is not yet completed.

## 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>
<b>Enterprise</b>	N/A	PeopleSoft Users Group	203.01

## Education / Training

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

<u>Department</u>	<u>Division</u>	<u>Project Name</u>	<u>Project Number</u>
<b>Enterprise</b>	N/A	Business Manager Curriculum	204.01
<b>Enterprise</b>	N/A	Excel Training	204.02
<b>Enterprise</b>	N/A	Fraud Awareness	204.03
<b>Enterprise</b>	N/A	Identity Theft	204.04
<b>Enterprise</b>	N/A	Policy - Code of Ethics	204.05
<b>Enterprise</b>	N/A	Supervisor Enhancement and Development	204.06
<b>Metro Council</b>	N/A	Audit Committee	204.07

### 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>
<b>Enterprise</b>	N/A	Oracle (Leap) - Application, Database, Server	301.04
<b>Enterprise</b>	N/A	Penetration Testing - External and Internal	301.26
<b>Enterprise</b>	N/A	PeopleSoft - Application, Database, Server	301.06
<b>Technology Services</b>	Information Technology	Data Center Controls - Datacenter Security and Environmental	301.22

## 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>
<b>Enterprise</b>	N/A	Integrity Investigations	401.01
<b>Housing &amp; Family Services *</b>	N/A	Employee Misconduct	401.05
<b>Housing &amp; Family Services</b>	Community Action Partnership	Summer Lunch Program	401.02
<b>Related Agencies *</b>	Office of Internal Audit	Lead Case Restitution	401.04

\* Prior year project that is not yet completed.

### 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>
<b>Enterprise</b>	N/A	Ethics Hotline - Administration	402.09
<b>Enterprise</b>	N/A	Ethics Hotline - Implementation	402.08

## 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.

