



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

INTERNAL AUDIT REPORT

DATE: May 20, 2015

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
Ronnie Bastin, Commissioner of Public Safety
David Holmes, Commissioner of Environmental Quality & Public Works
William O'Mara, Commissioner of Finance & Administration
Geoff Reed, Commissioner of General Services
Rodney Ballard, Director of Community Corrections
Mark Barnard, Chief of Police
Phyllis Cooper, Director of Accounting
Keith Jackson, Fire Chief
Charlie Martin, Director of Water Quality
Todd Slatin, Director of Purchasing
Tracey Thurman, Director of Waste Management
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Chris Ensslin, CIA, CFE, Deputy Director of Internal Audit
Jim Quinn, CIA, CISA, Internal Auditor

RE: PeopleSoft Payroll & Financial Transactions Audit

Background

Computer Aided Audit Techniques (CAAT) are computer programs that allow auditors to test computer files and databases. CAAT programs are able to examine entire databases for a given range of dates, and provide a more comprehensive review of transactions than sampling. The Office of Internal Audit has designed several automated tests using ACL audit software for the purpose of auditing LFUCG transactions. ACL audit software is a common data extraction and analysis tool, and can identify irregularities or patterns in transactions that could indicate control weaknesses or fraud. This audit was conducted to identify and examine anomalies in PeopleSoft's (PS) financial and human resource modules which could be indicators of fraud or control weaknesses.

Scope and Objectives

The control objectives of the audit were to determine that:

- Payments were made to employees for legitimate purposes
- Payments were made to legitimate active employees
- There were no skips or gaps in paycheck numbers or ACH sequence numbers
- There were no indications of possible nepotism
- Employees were only set up as vendors for appropriate reasons
- No financial conflicts of interest exist between the job duties of employees and the reasons for employees being paid as vendors
- Certain employee demographics in PeopleSoft are complete and reasonable
- Duplicate Social Security Numbers in PeopleSoft only exist for a valid reason (i.e., one employee legitimately working two different jobs)

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and are effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The transaction scope of our audit varied based on the tests performed.

Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

SUMMARY OF AUDIT FINDINGS

Finding #1: Possible Employee Conflicts of Interest in Purchase Activity

Priority Rating: High

Condition:

An ACL analytic compared the PS purchasing vendor table to the PS employee master table for possible matches on employee address and vendor address. Such matches are examined to determine if payments to employees are appropriate. The analytic identified several instances where purchases were made to employee or employee spouse outside businesses by the same Division or department in which these employees worked, as noted below:

- In December 2006, the Division of Fire purchased transducer keys for \$150.00 from a business apparently owned by an employee who was a Fire Captain at the time of the purchase.
- The Division of Fire had two separate purchases of equipment maintenance items totaling \$1,150 from a business owned by an employee who was a Fire Captain at the time of the purchase (this is a separate individual from the one listed above). The purchases were for \$900.00 in March 2007 and \$250.00 in May 2009.
- The Special Events Commission had two separate purchases of \$300.00 each in March 2009 for award supplies from the spouse of an employee who was a Parks & Recreation Program Supervisor at the time of the purchase.
- During the period September 2010 through July 2013, the Division of Police had eleven purchases of clothing items totaling \$15,127.45 from a business apparently owned by a Police Sergeant at the time of the purchase. The purchases range from \$350.00 to \$3,893.70, with five of the purchases exceeding \$1,000. An examination of some of the purchases exceeding \$1,000 noted that the Police Sergeant's business was listed as the lowest quote.

Proper Division approvals were obtained from management for each of these purchases, and there is nothing in the Purchasing Manual that prohibits a Division from purchasing goods or services from an employee within their Division.

The LFUCG Code of Ethics states, "No officer or employee, or any immediate family member of any officer or employee, shall have an interest in a business or engage in any business, transaction, or activity, which is in conflict with the proper discharge of the officer's or employee's public duties. No officer or employee shall use or attempt to use his official position to secure inappropriate personal privileges or advantages for himself or others, which are incompatible with the proper discharge of his duties." Since the employee business owners were apparently not involved in the requisition or approval of the purchases, and since there is no evidence that they used their official position to

secure the purchases, there does not appear to be any violation of the Code of Ethics. However, the examples given above could still raise legitimate questions about potential conflicts of interest that it is in the best interest of the LFUCG to avoid.

Effect:

Purchases made from the businesses of employees by the same Division in which the employee works could give rise to allegations of impropriety and questions as to whether such purchases represent the most economical and efficient transactions.

Recommendation:

Senior management should either clarify acceptable employee business purchase boundaries or restrict such purchase activity via revisions to the Purchasing Procedures or the Code of Ethics (or in both). A model for clarifying and a model for restricting such purchases are provided below.

A Fortune 100 company has ethics requirements similar to those included in the LFUCG Code of Ethics, but further clarifies its position by stating that its employees may not promote products or services from an outside business to other employees, customers, suppliers, or consultants during working hours or on company property, employees may not attempt to sell products or services from an outside business to the company, and employees may not use his or her position at the company to promote an outside company.

A major university's purchasing procedures state, "Except in very unusual circumstances, the University will not purchase equipment, materials, goods and services from an employee, a member of an employee's immediate family, or from a business in which an employee or a member of the employee's immediate family has an ownership interest of 10% or more. If an exception is necessary, the unit must provide a written disclosure of the transaction to its budget executive and the written disclosure must accompany the requisition to Purchasing Services."

Chief Administrative Officer Response:

The CAO will review and consider the options provided in the recommendation in order to ensure that all purchasing activity is appropriate.

Finding #2: Outside Consultant Paid as Employee Instead of Vendor
Priority Rating: High

Condition:

An ACL analytic was used to identify payroll anomalies. The analytic identified an individual hired by the Downtown Development Authority as an Administrative Aide, full time, seasonal employee on April 7, 2014 at the rate of \$75 per hour (an annual rate of \$156,000). This employee earned net pay of \$10,535.97 for the pay periods May 4, 2014 through July 13, 2014. This same person had previously been set up as an LFUCG vendor and paid a total of \$18,000 for project consulting work from November 7, 2013 through December 5, 2013 on a blanket Purchase Order that expired on January 31, 2014.

Since Downtown Development Authority is an outside agency, they are not required to obtain Council approval when hiring employees. However, the Downtown Development Authority uses the LFUCG PeopleSoft System to pay employees and vendors. It appears this person may have been hired and paid as an employee instead of being retained as vendor in order to circumvent the LFUCG purchasing process.

Effect:

Circumventing established LFUCG purchasing processes can cause loss of management and organizational control over expenditures and the allocation of organizational resources.

Recommendation:

Since Downtown Development Authority uses the LFUCG systems to pay employees and vendors, they should be advised to consistently adhere to established LFUCG purchasing procedures in the use of outside consultants.

Director of Purchasing Response:

Downtown Development Authority management has been advised to pay consultants as either employees or vendors and not alternate between the two to adhere to LFUCG purchasing policies.

Commissioner of Finance and Administration Response:

Commissioner of Finance and Administration concurs with the response from Purchasing.

Finding #3: Possible Instances of Nepotism Identified

Priority Rating: High

Condition:

An ACL analytic comparing employee addresses, last names, and department ID's identified 24 possible instances of nepotism. Section 25-19 of the Urban County Code of Ordinances states, "No officer or employee shall supervise or manage the work of a relative." The list is provided below:

DEPTNAME	NAME	JOBTITLE	JOBTITLE2	NAME2
Water Quality Administration	Patricia Smith	Administrative Specialist	Engineering Technician Sr	David Smith
Refuse Collection	Willetta Cowan	Equipment Operator Sr	Public Service Worker	Marshawn Cowan
Community Corrections Admin	John Dulin	Community Corrections Sergeant	Administrative Specialist Prpl	Gina Dulin
Community Corrections Admin	Nicholas Elko	Community Corrections Lieut	Community Corrections Sergeant	Yolanda Elko
Community Corrections Admin	Randolph Jones	Community Corrections Lieut	Community Corrections Officer	Tonya Jones
Special Operations	Rhonda Hatfield	Staff Assistant Sr	School Traffic Guard	Michael Hatfield
Fire Administration	Shawna Hannan	Firefighter – 56	Fire Lieutenant - 56	Robert Hannan
Recreation Programs	Melinda Stone	Program Supervisor - P/T	Recreation Specialist	Hailey Stone
Recreation Programs	Hailey Stone	Recreation Specialist	Program Leader	Melinda Stone
Enterprise Programs	Kelly Bingham	Water Safety Instructor	Lifeguard	Connor Bingham
Enterprise Programs	Chloe Bingham	Neighborhood Pool Asst Mgr	Lifeguard	Caroline R. Bingham
Enterprise Programs	Casey Bobel	Lifeguard	Neighborhood Pool Mgr	John Bobel
Enterprise Programs	Shannon Bruggemann	Neighborhood Pool Asst Mgr	Lifeguard	Ryan Bruggemann
Enterprise Programs	Megan Donnelly	Water Safety Instructor	Lifeguard	Kelly S Donnelly
Enterprise Programs	Kelly S Donnelly	Lifeguard	Cashier	Amanda Donnelly
Enterprise Programs	Amanda Donnelly	Cashier	Water Safety Instructor	Megan Donnelly
Enterprise Programs	Linda Frazier	Lifeguard	Olympic Pool Asst Manager	Nietta Frazier
Enterprise Programs	La'Bianca Frazier	Lifeguard	Olympic Pool Asst Manager	Nietta Frazier
Enterprise Programs	Nicholas Holloway	Pool Attendant	Concession Manager	Sonja Holloway
Enterprise Programs	Amanda Holthaus	Water Safety Instructor	Lifeguard	Daniel Holthaus
Enterprise Programs	Aqges Oliver	Concession Attendant	Boat Dock Attendant	Sharma Oliver
Enterprise Programs	Scott Sheets	Swim Pool Coordinator	Concession Attendant	Mason Sheets
Enterprise Programs	Lois Sheets	Cashier	Laborer I	Stephen Sheets
Enterprise Programs	Benjamin Whitmer	Neighborhood Pool Asst Mgr	Olympic Pool Mgr	Laura Whitmer

Effect:

Nepotism is a violation of the Urban County Code of Ordinances.

Recommendation:

We recommend the possible nepotism violations noted above be reviewed by the management of their respective Divisions, and that corrective action be taken as needed to ensure consistent compliance with the Ordinance.

Director of Water Quality Response:

The Division of Water Quality tries to be very conscientious of the nepotism provisions of Section 25-19 and I think that is illustrated in this case.

Attached is our organization chart that shows Mr. Smith in a line of supervision under the Collection and Conveyance Manager, who is a direct report to the division director (page 2 – third column).

This same organizational chart shows Ms. Smith in a line of supervision under the Deputy Director for Administrative Services, who is also a direct report to the division director (page 1 – fourth column).

Hopefully this demonstrates and validates that neither employee supervises or manages the work of the other.

Director of Waste Management Response:

These two employees are married and neither employee supervises the work of the other employee. They have different route assignments.

Commissioner of Public Works Response:

I concur with the responses from Water Quality and Waste Management.

Fire Chief Response:

This is a husband and wife that are on the same shift, a Captain and a firefighter. The command team is aware and placed them in the situation for family care and structure. We manage this based on daily roll call. We have no issue with this assignment and they are placed in environment where they work on the same truck.

Director of Community Corrections Response:

John Dulin retired effective 3/1/15. Lt. N. Elko works 2nd Shift Custody (1600-2400 hrs.) and Lt. Y. Elko works 1st Shift Custody (0800-1600). Lt. R. Jones works 2nd Shift Intake and Officer T. Jones works 2nd Shift Master Control.

Neither family member supervises the other family members.

Chief of Police Response:

Rhonda Hatfield is married to Michael Hatfield and they are both School Crossing Guards with the Lexington Police Department. Rhonda is also a staff assistant for the Traffic Section, and does not have any supervisory duties for the Lexington Police Department.

Pat Murray currently holds the position of School Crossing Guard Coordinator and supervises all of the School Crossing Guards.

We do not believe that there is a nepotism violation regarding this inquiry.

Commissioner of Public Safety Response:

Fire command is aware of the issue and has implemented reasonable safeguards to prevent direct supervision. I have no problem with this situation as it is currently being managed.

Community Corrections command is aware of the issues and have implemented reasonable safeguards to prevent direct supervision. I have no problem with either situation as they are currently being managed.

Regarding Police, there does not appear to be any nepotism violations with either of the two parties mentioned.

Commissioner of General Services Response:

Parks management has reviewed the list supplied within the audit findings. Although the Division does hire several family members as part time help for the summer, no family member shall supervise another. In all instances supplied, the employee does not report to, nor is supervised by the other family member. They are allowed to work on the same site, but not to supervise one another. We will continue to monitor the hiring of family members and will review internal policies to determine if more restrictive rules are needed that address “nepotism” in our system.

Division of Water Quality
Department of Environmental Quality and Public Works
As of 4/15/2015

Director-123
Charles H. Martin, P.E.





