

INTERNAL AUDIT REPORT

DATE: May 11, 2012

TO: Jim Gray, Mayor

CC: Richard Moloney, Chief Administrative Officer

Marwan Rayan, Director of Engineering Phyllis Cooper, Director of Accounting Susan Straub, Communications Director

Urban County Council Members Internal Audit Board Members

FROM: Bruce Sahli, Director of Internal Audit

RE: MAP & CAP Funds Audit

Background

The Kentucky Transportation Cabinet Office of Rural Secondary Roads (ORSR) administers three revenue sharing programs funded by motor fuel taxes as provided by Kentucky Revised Statutes (KRS) 177.320 through 177.366. This includes the Municipal and County Aid Cooperative programs, referred to within LFUCG as the Municipal Aid Fund (MAP-Fund 1136) and the County Aid Fund (CAP-Fund 1137). Each fiscal year, the state allocates LFUCG municipal and county aid funding to be used for the construction, reconstruction, and maintenance of city streets and county roads. According to KRS 177.365, construction, reconstruction, and maintenance means the supervising, inspecting, actual building, and all expenses incidental to the construction, reconstruction, or maintenance of a road or street, including planning, locating, surveying, and mapping or preparing roadway plans, acquisition of rights-of-way, relocation of utilities, lighting, and the elimination of other hazards such as roadway grade crossing, and all other items defined in the Department of Highways, design,

operations, and construction manuals. During FY 2011, the LFUCG received \$5,393,177 for MAP and \$780,062 for CAP. The Kentucky Transportation Cabinet projections for FY 2012 are \$5,195,581 for MAP and \$728,566 for CAP.

Scope and Objectives

The general control objectives for the audit were to provide reasonable assurance that:

- MAP and CAP Fund receipts are accurately recorded to the correct fund
- MAP & CAP Fund expenditures meet the requirements outlined in state statutes
- Required financial reports are filed in compliance with state statutes
- Flex fund reimbursement is requested and received when available

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 scope of the audit included transactions occurring during Fiscal Years 2010, 2011, and 2012 through January 2012.

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

<u>Finding #1:</u> Revenue Coded to Incorrect Fund Priority Rating: High

Condition:

An examination of expenditures from MAP Fund identified the payment of a \$9,000 invoice for the production of a documentary video concerning Town Branch Trail. This is not an allowable MAP Fund expenditure under KRS 177. Further review and inquiry determined that this expenditure occurred to offset the incorrect posting of ground lease easement revenue to the MAP Fund. The easement revenue should have been posted to the General Fund.

Effect:

Posting inappropriate expenditures is not the proper way to correct such errors, and can also bring into question LFUCG's compliance with KRS requirements regarding the MAP Fund.

Recommendation:

Only revenue received from the Kentucky Transportation Cabinet designated as Municipal Aid Program funds should be posted in the MAP Fund. The Division of Engineering should coordinate with the Division of Accounting to post a correcting entry transferring the remaining ground lease easement revenue to the General Fund.

Director of Engineering Response:

The ground lease easement revenue was posted in the MAP Fund to attempt to earmark it for expenditure on the Town Branch Trail project. A better course of action would have been to deposit the revenue in a special account for the Trail. Engineering will coordinate with the Division of Accounting to post the remaining money in an appropriate fund/account.

Chief Administrative Officer Response:

I concur with the plan to post the remaining money to an appropriate fund/account and will expect the Director to closely monitor future transactions.

<u>Finding #2:</u> Administrative Expenditures Fully Charged to MAP Fund Priority Rating: Moderate

Condition:

We identified eight expenditures that were administrative in nature and could be applied to other funds in addition to the MAP Fund. However, these expenditures were charged in full to the MAP Fund. See Exhibit One for details.

Effect:

By not properly allocating administrative expenditures to other applicable funds, the MAP Fund incurs higher administrative costs resulting in fewer available funds for actual road related work. This can also bring into question LFUCG's compliance with KRS requirements regarding the MAP Fund.

Recommendation:

Management should allocate such administrative expenditures against all appropriate funds.

Division of Engineering Response:

I concur with the finding of the audit report. Future administrative expenditures will be charged equitably against appropriate funds.

Chief Administrative Officer Response:

I concur and will expect the Director to monitor future transactions to assure that administrative expenditures are appropriately charged to the applicable funds.

Exhibit 1

Date	Vendor	Invoice #	Check #	Amount
7/13/2010	PNC Bank	845878_20	72010	\$62.00
9/14/2010	IRWA Ky Chapter 25	Wray&Bennett	105453	\$40.00
9/20/2010	IRWA	192343	107528	\$210.00
9/20/2010	IRWA	189392	111826	\$205.00
3/23/2010	University of Kentucky	Parsons, Hilliard	119134	\$50.00
3/09/2010	IRWA	Jim Wray	120351	\$20.00
8/04/2011	IRWA	James Wray	130281	\$20.00
1/27/2012	PNC Bank	1005359_3	12012	\$25.00