

**LEXINGTON-FAYETTE URBAN
COUNTY GOVERNMENT**

**SINGLE AUDIT REPORTS
UNDER OMB CIRCULAR A-133**

**For The Year Ended
June 30, 2012**

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**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

DEAN || DORTON || ALLEN || FORD_{PLLC}

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards**

The Honorable Mayor, Members of the
Urban County Council and Citizens
Lexington-Fayette Urban County Government
Lexington, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Lexington-Fayette Urban County Government (the Government) as of and for the year ended June 30, 2012, which collectively comprise the Government's basic financial statements and have issued our report thereon dated November 15, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Lexington Transit Authority, the Lexington Convention and Visitors Bureau, the Lexington Public Library, the Lexington-Fayette Urban County Airport Board, the Lexington-Fayette Urban County Department of Health, and the Lexington Center Corporation as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of the Government is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Government's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Government's financial statements will not be prevented, or detected and corrected on a timely basis.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying *Schedule of Findings and Questioned Costs* as items 2012-01 through 2012-03 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Government in a separate letter dated January 7, 2012.

The Government's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the Government's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, Urban County Council, management, others within the Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
November 15, 2012

**Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material
Effect on Each Major Program and Internal Control Over Compliance in Accordance With
OMB Circular A-133**

DEAN || DORTON || ALLEN || FORD
PLLC**Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133**

The Honorable Mayor, Members of the
Urban County Council and Citizens
Lexington-Fayette Urban County Government
Lexington, Kentucky

Compliance

We have audited the compliance of Lexington-Fayette Urban County Government (the Government) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. The Government's major federal programs are identified in the summary of auditors' results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Government's management. Our responsibility is to express an opinion on the Government's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Government's compliance with those requirements.

In our opinion, the Government complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the Government is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Government's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as item 2012-04 to be a significant deficiency.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government as of and for the year ended June 30, 2012, and have issued our report thereon dated November 15, 2012, which contained an unqualified opinion on those financial statements. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Lexington Transit Authority, the Lexington Convention and Visitors Bureau, the Lexington Public Library, the Lexington-Fayette Urban County Airport Board, the Lexington-Fayette Urban County Department of Health, and the Lexington Center Corporation as described in our report on the Government's financial statements.

Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Government's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the Government's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Mayor, Urban County Council, management, others within the Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky

January 7, 2013, except for the third to last paragraph above
for which the date is November 15, 2012

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Expenditures of Federal Awards

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Federal Grant Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:				
Direct Programs:				
Child Care Food Program	10.558	034-L95-999		\$ 65,043
Purchase of Development Rights (PDR)	10.913	68-5C16-9-152		102,720
Purchase of Development Rights (PDR)	10.913	68-5C16-11-128		1,000,000
Total U.S. Department of Agriculture				1,167,763
U.S. Department of Housing and Urban Development:				
Direct Programs:				
CDBG - Entitlement Grants Cluster:				
Community Dev Block Grant	14.218	B10MC210004		1,965,921
Community Dev Block Grant-R - ARRA	14.253	B-08-MY-21-0004		205,979
				2,171,900
Total CDBG - Entitlement Grants Cluster				2,171,900
Emergency Shelter	14.231	S10MC210003		24,928
Emergency Shelter	14.231	E11MC210003		92,314
HOME	14.239	M09MC210201		1,150,412
HOME	14.239	M10MC210201		631,552
Housing Opp for Pers with AIDS (HOPWA)	14.241	KY-H08-0007		378,988
Housing Opp for Pers with AIDS (HOPWA)	14.241	KY-H11-0012		67,560
HPRP_R_2010 - ARRA	14.257	S-09-MY-21-0003		267,648
Passed through Commonwealth of Kentucky:				
Neighborhood Stabilization Program-Land	14.228		09N-043	90,739
Neighborhood Stabilization Program-REACH	14.228		09N-042	35,251
Total U.S. Department of Housing and Urban Development				4,911,292
U.S. Department of Justice:				
Direct Programs:				
Police Confiscated Funds	16.N/A	NA		730,602
Safe Havens	16.527	2010-CW-AX-K013		83,556
Arrest Policy	16.590	2006-WE-AX-0053		75,901
Arrest Policy	16.590	2011-WE-AX-0011		99,519
SCAAP	16.606	2011-AP-BX-0370		111,129
Bulletproof Vests	16.607	07037695		2,891
Bulletproof Vests	16.607	2009 BOBX 090 47311		573
Bulletproof Vests	16.607	2010-BOBX-10051351		36,546
Project Safe Neighborhoods	16.609	2008-GP-CX-0060		24,185
Project Safe Neighborhoods	16.609	2009-GP-BX-0020		35,834
Project Safe Neighborhoods	16.609	2010-GP-BX-0095		2,277
JAG Program Cluster:				
Justice Assistance Grant	16.738	2009-DJ-BX-0469		8,923
Justice Assistance Grant	16.738	2010-DJ-BX-1245		91,902
Justice Assistance Grant	16.738	2011-DJ-BX-3120		101,508
				202,333
Justice Assistance Grant (JAG) Recovery - ARRA	16.804	2009-SB-BP-1627		240,740
Total JAG Program Cluster				443,073
Redeploy-ARRA	16.808	2009-SC-B9-0104		145,613
Passed through Commonwealth of Kentucky:				
Juv Accountability Block Grant	16.523		JABG-2011-LFUCG-00011	6,679
Juv Accountability Block Grant	16.523		JABG-2012-LFUCG-00008	10,040

The accompanying notes are an integral part of this schedule.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2012

(Continued)

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Federal Grant Number	Pass-through Grantor's Number	Federal Expenditures
Passed through Commonwealth of Kentucky:				
Safe Sun	16.588		VAWA-2010-LFUCG-ST-0	14,654
Sexual Assault Nurse Examiner (SANE)	16.588		VAWA-2010-LFUCG-ST-00132	17,790
Sexual Assault Nurse Examiner (SANE)	16.588		VAWA-2011-LFUCG-ST-00220	17,762
Street Sales	16.579		2011-JAG-LFUCG STRE-00800	50,000
Street Sales (Confiscated Funds)	16.579		2011-JAG-LFUCG STRE-00800	21,449
National PAL Recovery Act Mentoring Day	16.808		2009-SC-B9-0162	4,980
PALYEP	16.726		2010-JU-FX-0025	16,985
PALYEP	16.726		2011-JU-FX-0015	2,579
Total U.S. Department of Justice				1,954,617
U.S. Department of Transportation:				
Passed through Commonwealth of Kentucky:				
Air Quality Planning	20.205		1200000158	54,000
Bicycle and Pedestrian Planning	20.205		1200000158	49,560
Brighton Rail Trail Bridge	20.205		PO2-628-0900022378	56,070
Citation Boulevard	20.205		C-05396856	865,893
Clays Mill Road	20.205		C-03328686	3,147,940
Congestion Management	20.205		1200000158	67,200
Federal Highway Planning	20.205		1100004277	284,777
Fiber Optic Cable Installation	20.205		P02-628-0900022383	116,623
Intelligent Tranpor. System (ITS)	20.205		1000002782	393,962
Intelligent Tranpor. System (ITS)	20.205		1200000760	6,759
Lexvan Program Project	20.205		P02-628-0900022384	105,600
Lexington Traffic	20.205		1200001306	79,981
Liberty Road/Todds Road	20.205		C-04073306	63,463
Maxwell Bike Ped	20.205		PO2-628-0700008015	99,737
Newtown Landscape	20.205		PO2-628-1200005511	177,420
Newtown Pike	20.205		C-00343167	37,485
Newtown Pike	20.205		C-01261650	358,102
Newtown Pike Supplement #2	20.205		076-2011	603,699
Share The Road	20.205		PO2-628-0900022380	8,080
South Elkhorn Bike	20.205		KYTC Item 7-229	10,378
South Limestone Streetscape	20.205		P02-628-1100004324	35,906
Southland	20.205		P02-628-1100001374	2,094
Tates Creek Sidewalks	20.205		PO2-628-0900022382	120,839
Town Branch	20.205		P02-628-1200004353	882
West Hickman	20.205		C-04482975	40,323
MCSAP	20.218		No Number	57,304
MCSAP	20.218		No Number	22,846
Tact	20.218		No Number	16,514
Tact	20.218		No Number	22,686
Fed Transit Admin Section 5303	20.505		KY-80-0003-03	48,400
Mobility Office	20.505		MA-1200000158	100,219
Highway Safety Cluster:				
Traffic Safety	20.600		AL-11-23	963
Traffic Safety	20.600		AL-12-22	73,709
Traffic SP	20.600		PT-11-26	302
Traffic SP	20.601		PT-12-30	21,024
Traffic Safety Supplement	20.602		K2-12-38	19,741
Total Highway Safety Cluster				115,739
Total U.S. Department of Transportation				7,170,481

The accompanying notes are an integral part of this schedule.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012
(Continued)

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Federal Grant Number	Pass-through Grantor's Number	Federal Expenditures
U.S. Environmental Protection Agency:				
Direct Programs:				
South Elkhorn Pump Station	66.604	XP-95438509-0		5,478
Brownfield Assessment Project	66.818	BF-95461610-0		32,167
Passed through Commonwealth of Kentucky:				
State Clean Diesel	66.040		PON2-129-1100000656	202,640
Wolf Run	66.460		C9994861-09	75,517
Total U.S. Environmental Protection Agency				<u>315,802</u>
U.S. Department of Health and Human Services:				
Direct Programs:				
Runaway Youth	93.623	90CY236402		61,532
Runaway Youth	93.623	90CY236403		80,668
Passed through Commonwealth of Kentucky:				
Senior Citizens	93.044		AS-2011-2012-2015	90,523
Childcare-Resource-Referral (CCRR)	93.N/A		n/a	497
New Chance-Cab For Families	93.558		PON2 736 1000001890	345,395
Home Network	93.597		2009-2010-PUBLIC-R	53,866
Home Network	93.597		2010-2011-PUBLIC-R	225,851
Total U.S. Department of Health and Human Services				<u>858,332</u>
U.S. Department of Homeland Security:				
Passed through Commonwealth of Kentucky:				
Hazard Mitigation Grant Prog.(HMGP_Plan)	97.039		PON209511000015691	57,905
Hazard Mitigation Grant Prog.(HMGP_Shan)	97.039		PON209511000007591	16,322
Hazard Mitigation Grant Prog.(HMGP_South)	97.039		PON209511000014261	325,969
Chemical Stockpile Emergency (CSEPP)	97.040		PON209508000112861	18,232
Chemical Stockpile Emergency (CSEPP)	97.040		PON209510000009491	196,515
Chemical Stockpile Emergency (CSEPP)	97.040		PON209511000014051	230,779
Chemical Stockpile Emergency (CSEPP)	97.040		PON209512000005371	612
Emergency Management Assistance	97.042		PON209511000006691	23,193
Emergency Management Assistance	97.042		PON209511000003831	74,353
Assistance to Firefighters Grant	97.044		EMW-2009-FO-06135	32,762
Bomb Squad	97.067		PO209411000022141	33,792
Bomb Squad	97.067		PO209412000030072	4,705
State Homeland (FIRE)	97.067		P02 094 1200003008 1	121,000
State Homeland Dive	97.067		P02 094 1100002216 1	111,954
State Homeland Police	97.067		P02 094 1100002230 1	1,482
State Homeland Police	97.067		P02 094 1200003009 1	43,515
State Homeland Security (COM)	97.067		P02 094 1200003527 1	69,400
Metro Medical Response System (MMRS)	97.071		PON2 094 1000002389 1	41,699
Metro Medical Response System (MMRS)	97.071		P02 094 1100002296 1	158,158
Metro Medical Response System (MMRS)	97.071		P02 094 1200003498 2	30,070
Total U.S. Department of Homeland Security				<u>1,592,417</u>
U.S. Department of Energy:				
Direct Programs:				
Energy Efficiency & Conservation Block Grant - ARRA	81.128	DE-EE0000728		1,487,812
Total U.S. Department of Energy				<u>1,487,812</u>
Total Expenditures of Federal Awards				<u>\$ 19,458,516</u>

The accompanying notes are an integral part of this schedule.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2012

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Lexington-Fayette Urban County Government and is presented on a modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 – Subrecipients

Of the federal expenditures presented in the Schedule, Lexington-Fayette Urban County Government provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.218	Community Development Block Grant	\$ 369,090
14.231	Emergency Shelter	81,827
14.239	HOME	1,768,617
14.241	Housing Opportunity for Persons with AIDS	430,979
14.253	Community Development Block Grant - ARRA	147,503
16.609	Project Safe Neighborhoods	41,820
16.527	Safe Haven	75,193
16.590	Arrest Policy	31,334
16.738	Justice Assistance Grant	42,048
16.804	Justice Assistance Grant (JAG) Recovery - ARRA	129,602
93.623	Runaway Youth	142,200

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es): ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☒ Yes ☐ None Reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?: ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None Reported

Type of auditors' report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? ☒ Yes ☐ No

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
14.253	Community Development Block Grant - ARRA
14.241	Housing Opportunity for Persons with AIDS
16.N/A	Police Confiscated Funds
20.205	Highway Planning and Construction
66.040	State Clean Diesel Grant Program
81.128	Energy Efficiency & Conservation Block Grant Program - ARRA

Dollar threshold used to distinguish between Type A and Type B programs: \$583,755

Auditee qualified as a low-risk auditee? ☐ Yes ☒ No

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012
(Continued)

II. FINANCIAL STATEMENT FINDINGS

2012-01 Segregation of Duties – Access to PeopleSoft

Criteria:

The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the Government's assets and ensure accurate financial reporting. Additionally, access to PeopleSoft should be restricted to ensure personnel have access only to those applications and transaction types necessary for their position.

Condition:

Employees of the Government have access levels not necessitated by their respective role. Personnel have access to PeopleSoft that allow a breach of segregation of duties (for example, certain employees have access to prepare and authorize transactions). Periodic logical segregation of duty reviews are not being performed. Additionally, there are too many Domain Administrators for the Windows Active Directory domain.

Cause:

There is a lack of formal policies and procedures regarding access levels and logical segregation of duties.

Effect or Potential Effect:

Allowing employees to have too many privileges can be conducive to fraud or errors remaining undetected.

Recommendation:

We recommend that formalized policies should be created to identify the access requirements of PeopleSoft users to ensure the level of access is appropriate for the position and that segregation of duties is not breached. The Government should perform periodic reviews of user access to the PeopleSoft system to ensure logical segregation of duties is not being breached. Additionally, a review of membership in the Domain Administrator group should be performed on an annual basis and users should be removed from the group if the level of access is not necessary.

Government's Response:

The Government chartered an IT Governance Board (ITGB) in August of 2012, after the close of FY12. The ITGB is looking closely at SOD issues, password management, creation of policies, and domain administration. In addition to policy creation, periodic access reviews will continue on a quarterly basis. Contact person is Chad Cottle, Director of Enterprise IT Solutions. The expected completion date is ongoing; the process is expected to carry on continually.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012
(Continued)

II. FINANCIAL STATEMENT FINDINGS, CONTINUED

2012-02 Informational Technology Systems – Safeguard and Security

Criteria:

A strong information technology (IT) environment is essential to the maintenance of the electronic data held by the Government and to prevent unauthorized access to the Government's information technology systems.

Condition:

During our review of the Government's IT systems and related controls, we identified the following:

- Password improvements are needed for access to the Government's network and access to PeopleSoft
- Passwords are not adequately secured by all Government employees and are at times shared with other employees
- The Government does not have a formal policy and procedure to perform network vulnerability and penetration assessments in order to appropriately identify weaknesses and areas for improvements in the Government's network environment
- Wireless access security to the Government's network is inadequate to prevent unauthorized access to the network
- The Government does not have a formal disaster recovery plan

Cause:

The conditions are caused by:

- Not having adequate password policies in place for the network and PeopleSoft,
- Not instituting a policy to at least annually perform network vulnerability and penetration assessments,
- Not performing regular reviews of wireless access points and ensuring the best security configurations are being used,
- Not prioritizing development of a disaster recovery plan.

Effect or Potential Effect:

Unauthorized access to the Government's computers or network could result in the loss of data, violation of privacy rules and regulations, and losses to the Government through misappropriation of assets. The irrecoverable loss of data could compromise the Government's ability to provide the necessary financial information for reporting to the Urban County Council or the citizenry.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012
(Continued)

II. FINANCIAL STATEMENT FINDINGS, CONTINUED

2012-02 Informational Technology Systems – Safeguard and Security, continued

Recommendation:

We recommend that the Government review its current IT safeguard and security policies and procedures and ensure the following:

- Password policies are strengthened so that, at a minimal, they are consistent with IT security best practices with regards to complexity and length,
- Department and Divisional Directors ensure employees are adhering to established password policies and stress the importance of keeping passwords private,
- Perform a network vulnerability and a penetration assessment at least annually,
- Configure all wireless access points to WPA2 security and eliminate WEP security as soon as administratively possible, and
- Develop a formalized disaster recovery plan that includes periodic checks to ensure data can be recovered successfully.

Government's Response:

The Government chartered the ITGB in August of 2012, after the close of FY12. The ITGB is looking closely at these issues. In August of 2012 IT engaged disaster recovery consultants to review the Government's Business Impact Analysis, refresh our DR plan and provide a roadmap for business continuity and business resilience. Per the Chief Administrative Officer, the refresh our DR plan remains IT's highest priority. IT plans to resume backup testing during the early months of 2013. The wireless network has been replaced with a more modern system that utilizes WPA2 authentication.

2012-03 Segregation of Duties – Change Management – PeopleSoft

Criteria:

Change management is a critical component to the Government's IT security. Limiting unauthorized changes and having proper segregation of duties in place is essential to reduce the risk of implementing IT changes into production environments which could contain untested errors, or malicious codes, which could negatively impact critical IT systems.

Condition:

Our assessment of the Government's internal control policies, and procedures of the Government's ERP system, PeopleSoft, revealed an inadequate segregation of duties related to change management. Specifically, there are three full-time developers and two other personnel with development responsibilities within the Division of Enterprise Solutions; all of which have the ability to make changes and implement changes in production. In addition, we noted that a change management tracking and versioning application is not being used in order to provide an appropriate audit trail of system changes.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012
(Continued)

II. FINANCIAL STATEMENT FINDINGS, CONTINUED

2012-03 Segregation of Duties – Change Management – PeopleSoft, continued

Cause:

The condition is caused by having a limited number of developers, lack of procedures to limit introducing code to production environments, and not having a system to track the change management process.

Effect or Potential Effect:

Fraudulent or malicious code could be introduced into PeopleSoft without being detected which could negatively impact the Government's IT systems.

Recommendation:

We recommend that the Government review its policies and procedures related to systems changes and customization of PeopleSoft, and ensure that the duties are adequately segregated. The responsibility for creation, approval, and application of changes should be assigned to different personnel to avoid undesired changes. At a minimal, the individual responsible for making changes should be separated from personnel implementing changes into production. Further, the Government should implement a change management tracking and versioning application capable of tracking changes beginning with the request all the way through implementing into production.

Government's Response:

The ITGB is looking closely at SOD issues, password management, creation of policies, and domain administration. In order to mitigate the issue presented in this finding, IT is evaluating the number of additional programmers needed to ensure SOD compliance has been met. Additionally, we will look at software systems or other tracking measures as an additional compensating control. Contact person is Chad Cottle, Director of Enterprise IT Solutions. The expected completion date is 12/31/2013 and ongoing thereafter.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012
(Continued)

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2012-04 The Government should improve internal control policies and procedures related to the preparation of the Schedule of Expenditures of Federal Awards

Criteria:

OMB Circular A-133 (the Circular) requires the Government to identify all Federal awards received and expended and the Federal program under which they were received. The Government is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the Government's financial statements in accordance with §____.310 of the Circular.

Condition:

The Government's internal control policies and procedures do not appropriately identify grants with Federal expenditures such that the Grants and Special Programs Division is timely involved in monitoring compliance with grant agreements and associated expenditures. In the current year, expenditures were reduced by \$222,249 for expenditures incorrectly claimed and reported on the SEFA for CFDA #66.458 South Elkhorn Pump Station KIA program in the prior year. This grant was not timely identified as being funded with Federal grant monies and expenditures were claimed that were not in accordance with the federal requirements.

Cause:

The Government does not have sufficient policies and procedures to ensure that all grants received are appropriately and timely investigated to identify accurately the funding source.

Effect or Potential Effect:

The Government is not in compliance with OMB Circular A-133 requirements. Grant management can be ineffective or inefficient.

Recommendation:

We recommend that the Government strengthen internal control policies and procedures to ensure funding sources are appropriately and timely identified.

Government's Response:

The Government has retained a consultant with expertise in the area to oversee all projects associated with the Kentucky Revolving Loan (KRL) program sponsored by the Kentucky Infrastructure Authority, as it relates to administration. This will ensure all deadlines are met and all documentation meets the requirements of the program. The contact name is Phyllis Cooper, Director of Accounting. This process is complete.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2012

2011-01

Condition: Revenue and related receivables from the LFUCG Comprehensive Development Exaction Program were recognized within the governmental fund financial statements even though settlement of the exaction fees was expected to be made by the respective developers contributing non-cash infrastructure type assets, rather than making payment in cash.

Current Status: This finding was resolved during the year ended June 30, 2012.

2011-02

Condition: Prior period adjustments were required to:

1. Adjust compensated absences balances with respect to the Police Department personnel;
2. Adjust capital assets balances for items previously incorrectly capitalized.

Current Status: This finding was resolved during the year ended June 30, 2012.

2011-03

Condition: During our testing of the Department of Justice Asset Forfeiture Program, we noted that the Equitable Sharing Agreement and Certification Report (which is due within 60 days of the Government's fiscal year end) was not submitted in a timely manner and did not agree to the accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards (SEFA). The report was subsequently amended.

Current Status: The Equitable Sharing Agreement and Certification Report was filed on time, but an amendment was submitted due to changes being made to the trial balance subsequent to the initial submittal.

2011-04

Condition: The Government's internal control policies and procedures over the preparation of the SEFA did not accurately capture all expenditures of Federal awards such that CFDA#66.458 South Elkhorn Pump Station KIA program was omitted from the prior year SEFA. The program was only included in the current year SEFA as a result of procedures performed by the external auditor.

Current Status: The finding was partially corrected in the current year, see 2012-04.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Summary Schedule of Program Review Performed by Other Organization (*unaudited*)
For the Year Ended June 30, 2012

We are aware of the following reviews of Lexington-Fayette Urban County Government (the Government) performed by other organizations during the period of this year's audit.

Organization: U.S. Department of Housing and Urban Development (HUD)

Description:

During the period of March 13-15, 2012, HUD representatives conducted an on-site review of the Government's administration of the programs authorized pursuant to CPD Monitoring Handbook 6509.2 Rev. 6, Chapter 10. The purpose of the monitoring review was to evaluate HOPWA program grants administered by the Government to ensure they are within the guidelines established by federal regulations. There was one finding noted in the HUD letter issued May 25, 2012. A summary of the finding, corrective action required by HUD, and the status per the Government's letter to HUD dated July 11, 2012 is as follows:

Federal Program: U.S. Department of Housing and Urban Development-Housing Opportunities for Persons with AIDS (HOPWA)

The grantee should undertake the following actions:

1. Review expenditure records and identify the total amount of indirect costs charged to grants KY-H08-007 and KY-H11-0012 and report such total to HUD within 45 days. Such costs are disallowed and should be repaid to the grant subject to potential offset as noted in the next item.
2. Repay the disallowed costs determined in item 1 within an additional 30 days OR provide documentation showing that grant qualified expenses were actually incurred but not previously charged to the grant, and apply the amount of such expenses to the amount determined above. To the extent that there remain disallowed costs, these funds must be returned to the grant. Grantee should consult with HUD office prior to making such repayment to ensure that appropriate repayment procedures are followed and funds are returned to the correct grant.
3. Submit a new indirect cost rate plan (which was completed on April 12, 2012). HUD will advise when the plan is approved. However the grantee may not charge indirect costs pending approval of the plan.
4. Require the sponsor to update its procurement policy to be compliant with federal requirements.
5. Conduct a pre-award conference with the project sponsor prior to signing a future renewal agreement to discuss in detail the actual items to be charged to the grant and review appropriate financial management and programmatic guidance, and OMB regulations to ensure that such expenses meet all requirements and are appropriately documented.