

Reports Required by the Single Audit Act

2015

Lexington-Fayette Urban County Government

June 30, 2015



Strothman+Co

Reports Required by the Single Audit Act

Lexington-Fayette Urban County Government

June 30, 2015

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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***



**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 Jim Gray, Members of the
Urban County Council and Citizens
Lexington-Fayette Urban County Government
Lexington, Kentucky

We have audited, in accordance with the 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, 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, 2015, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated November 17, 2015. Our report includes a reference to other auditors who audited the financial statements of the Transit Authority of the Lexington-Fayette Urban County Government, 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. The report does not include the results of the other auditor's 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

In planning and performing our audit of the financial statements, we considered the Government's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as follows:

Finding Reference Number

2015-001 – Informational Technology Systems – Safeguard and Security
2015-002 – Segregation of Duties – Change Management – People Soft
2015-003 – Access to Banking Websites
2015-004 – Controls over Credit Cards

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free from 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*.

Lexington-Fayette Urban County Government's Response to Findings

The Government's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Government's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

STROTHMAN AND COMPANY

Louisville, Kentucky
November 17, 2015

**Independent Auditors' Report on Compliance for
Each Major Program and on Internal Control
Over Compliance Required by
OMB Circular A-133 and on the Schedule
of Expenditures of Federal Awards**



**Independent Auditors' Report on Compliance for
Each Major Program and on Internal Control
Over Compliance Required by
OMB Circular A-133 and on the Schedule
of Expenditures of Federal Awards**

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

Report on Compliance for Each Major Federal Program

We have audited the Lexington-Fayette Urban County Government's (the "Government") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Government's major federal programs for the year ended June 30, 2015. The Government's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The Government's basic financial statements include the operations of the Lexington-Fayette Urban County Department of Health ("Health Department") and the Transit Authority of the Lexington-Fayette Urban County Government ("Lextran"), discretely presented component units, which received \$11.5 million in federal awards which is not included in the schedule of expenditures of federal awards during the year ended June 30, 2015. Our audit, described below, did not include the operations of the Health Department and Lextran because both entities have separate audits performed in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Government's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Government's compliance.

Opinion on Each Major Federal Program

In our opinion, the Government, complied, in all material respects, with the types of 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, 2015.

Report on Internal Control over Compliance

Management of the Government is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Government's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 a 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. 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.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2015, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements. We issued our report thereon dated November 17, 2015, which contained unmodified opinions on those financial statements. Our report includes reference to other auditors who audited the financial statements on the Transit Authority of the Lexington-Fayette Urban County Government, 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 opinions on the financial statements that collectively comprise the 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 basic 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.

STROTSMAN AND COMPANY

Louisville, Kentucky
January 21, 2016, except for the last two paragraphs,
for which the date is November 17, 2015

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Expenditures
US Department of Agriculture:			
Direct Programs:			
Child and Adult Care Food Program	10.558	11475	\$12,942
Child and Adult Care Food Program	10.558	11475	45,261
10.558 Subtotal			58,203
Farm and Ranch Lands Protection Program	10.913	68-5C16-11-128	382,800
Total US Department of Agriculture			441,003
US Department of Housing and Urban Development:			
Direct Programs:			
Community Development Block Grants/Entitlement Grants	14.218	B12MC210004	445,125
Community Development Block Grants/Entitlement Grants	14.218	B13MC210004	903,507
Community Development Block Grants/Entitlement Grants	14.218	B14MC210004	370,740
14.218 Subtotal			1,719,372
Emergency Solutions Grant Program	14.231	E13MC210003	58,619
Emergency Solutions Grant Program	14.231	E14MC210003	100,540
14.231 Subtotal			159,159
Home Investment Partnership Program	14.239	M11MC210201	517,284
Home Investment Partnership Program	14.239	M12MC210201	401,096
Home Investment Partnership Program	14.239	M13MC210201	249,571
Home Investment Partnership Program	14.239	M14MC210201	258,863
14.239 Subtotal			1,426,814
Housing Opportunities for Persons with AIDS	14.241	KY-H11-0012	491,557
Housing Opportunities for Persons with AIDS	14.241	KY-H14-0011	165,575
14.241 Subtotal			657,132
Total US Department of Housing and Urban Development			3,962,477
US Department of Justice:			
Direct Programs:			
Police Confiscated Funds	16.000	NA	419,290
Supervised Visitation, Safe Havens for Children	16.527	2010-CW-AX-K013	39,176
Supervised Visitation, Safe Havens for Children	16.527	2013-FL-AX-K011	145,370
16.527 Subtotal			184,546

Continued

Schedule of Expenditures of Federal Awards--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Expenditures
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2011-WE-AX-0011	85,237
State Criminal Alien Assistance Program	16.606	2011-AP-BX-0370	10
State Criminal Alien Assistance Program	16.606	2012-AP-BX-0690	7,165
16.606 Subtotal			7,175
Project Safe Neighborhoods	16.609	2011-GP-BX-0027	21,745
Public Safety Partnership and Community Policing Grants	16.710 ARRA	2011ULWX0015	482,482
Juvenile Mentoring Program	16.726	2013-JU-FX-0024	10,032
Direct Programs:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-3120	37,715
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0432	5,661
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0325	24,065
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0578	53,359
Passed through Commonwealth of Kentucky:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-JAG-LFUCG-STRE-00946	63,674
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-JAG-LFUCG-STRE-01051	6,759
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-JAG-LFUCG-STRE-01051	49,991
16.738 Subtotal			241,224
Juvenile Accountability Block Grant	16.523	JABG-2013-LFUCG St-00007	743
Juvenile Accountability Block Grant	16.523	JABG-2014-LFUCG St-00006	2,147
Juvenile Accountability Block Grant	16.523	JABG-2015-LFUCG St-00005	14,841
16.523 Subtotal			17,731
Violence Against Women Formula Grants	16.588 ARRA	VAWA-2013-LFUCG-ST-00334	18,700
Violence Against Women Formula Grants	16.588 ARRA	VAWA-2014-LFUCG-ST-00383	15,742
16.588 Subtotal			34,442
Total US Department of Justice			1,503,904
US Department of Labor:			
WIA Cluster			
Passed through Commonwealth of Kentucky:			
WIA/WIOA Youth Activities	17.259	14-006Y	5,401
WIA/WIOA Youth Activities	17.259	15-006Y	75,229
Total WIA Cluster			80,630
Total US Department of Labor			80,630

Continued

Schedule of Expenditures of Federal Awards--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Expenditures
US Department of Transportation:			
Highway Planning and Construction Cluster			
Passed through Commonwealth of Kentucky:			
Air Quality Planning	20.205	1500000012	52,882
Bicycle and Pedestrian Planning	20.205	1500000012	52,800
Brighton East	20.205	1000001796	51,784
Citation Boulevard	20.205	C-05396856	302,684
Clays Mill Road	20.205	C-03328686	1,784,925
Congestion Management	20.205	1500000012	62,395
Distracted Driving	20.205	PO2-625-15000040641	26,527
Federal Highway Planning	20.205	1400005555	361,600
Fiber Optic Cable Installation	20.205	PO2-628-1300002569	293,760
Gainesway Trail CMAQ Project	20.205	PO2-628-0700013794	2,566
Intelligent Transpor. System (ITS)	20.205	PO2-625-1400003771	457,598
Intelligent Transpor. System (ITS)	20.205	PO2-625-1500000357	16,524
Legacy Trail Enhancements	20.205	PO2-625-1200003879	481,816
Legacy Trail Phase III	20.205	PO2-628-1400005764	62,114
Lexington Traffic	20.205	PO2-625-1200001306	75,685
Liberty Road/Todds Road	20.205	C-04073306	863,417
Loudon Avenue Sidewalk Project	20.205	PO2-628-1100001626	14,384
Man O' War & Alumni Intersection Project	20.205	PO2-625-1400004868	42,482
Man O' War & Pink Pigeon Intersection Project	20.205	PO2-625-1400004867	20,111
Man O' War & Richmond Intersection Project	20.205	PO2-625-1400004869	8,056
Newtown Pike	20.205	C-00343167	11,651
Newtown Pike Supplement #1	20.205	C-00343167	190,828
Newtown Pike Supplement #2	20.205	C-00343167	886,806
Polo Club Boulevard Project	20.205	PO2-625-1300001036	24,279
Rose Street Bike Lanes	20.205	C-01099430	19,245
Share The Road	20.205	PO2-628-0900022380	11,769
Southland	20.205	PO2-628-1100001374	188,885
South Limestone Streetscape	20.205	PO2-628-1100004324	634,736
Tates Creek Sidewalks	20.205	PO2-628-1300001250	40,750
Town Branch	20.205	PO2-628-1200004353	500
Mobility Office	20.205	MA-1500000012	97,665
Transit Planning	20.205	PO2-625-1500000669	120,000
20.205 Subtotal			7,261,224
Recreational Trails Program	20.219	RTP 484-13	5,274
Total Highway Planning and Construction Cluster			7,266,498

Continued

Schedule of Expenditures of Federal Awards--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Expenditures
Passed through Commonwealth of Kentucky:			
National Motor Carrier Safety	20.218	No Number	14,206
National Motor Carrier Safety	20.218	No Number	5,460
National Motor Carrier Safety	20.218	No Number	<u>10,692</u>
20.218 Subtotal			30,358
Highway Planning and Construction	20.505	1500002152	48,400
Highway Safety Cluster			
State and Community Highway Safety	20.600	PT-14-28	547
State and Community Highway Safety	20.600	PT-15-27	<u>18,693</u>
20.600 Subtotal			19,240
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	M5-15-21	78,419
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	K8-14-19	<u>3,150</u>
20.601 Subtotal			<u>81,569</u>
Total Highway Safety Cluster			<u>100,809</u>
Total US Department of Transportation			7,446,065
US Environmental Protection Agency			
Direct Programs:			
Brownfield Assessment and Cleanup Cooperative Agreements	66.818 ARRA	BF-95461610-0	61,595
Passed through Commonwealth of Kentucky:			
Nonpoint Source Implementation Grants	66.460	C9994861-09	30,760
Nonpoint Source Implementation Grants	66.460	PON2 129 1400000015	<u>997</u>
			31,757

Continued

Schedule of Expenditures of Federal Awards--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Expenditures
Passed through Commonwealth of Kentucky:			
Clean Water State Revolving Fund Cluster			
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A10-08 SWR	17,667
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A12-16 SWR	1,077,401
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-003 SWR	650,538
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-003 SWR	100,827
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-003 SWR	3,087,168
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-003 SWR	329,386
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-007 WQ	203,043
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-007 WQ	284,747
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-15 SWR	6,890,602
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-18 SWR	1,352,930
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-002 SWR	1,295,640
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-002 SWR	463,668
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-002 SWR	452,195
66.458 Subtotal			16,205,812
Total Clean Water State Revolving Fund Cluster			16,205,812
Total US Environmental Protection Agency			16,299,164
US Department of Health and Human Services:			
Passed through Commonwealth of Kentucky:			
Special Programs for the Aging Title III, Part B Grants for Supportive Services and Senior Centers	93.044	AS-2014-2015-2016	127,506
Grants to States for Access and Visitation Programs	93.597	2011-2012-PUBLIC-R	10,863
Grants to States for Access and Visitation Programs	93.597	2012-1013-PUBLIC-R	292,975
Grants to States for Access and Visitation Programs	93.597	2013-1014-PUBLIC-R	18,788
93.597 Subtotal			322,626
Total US Department of Health and Human Services			450,132
US Department of Homeland Security Office of Domestic Preparedness:			
Passed through Commonwealth of Kentucky:			
Hazard Mitigation Grant Prog.(HMGP_Lafayette)	97.039	PON209512000039332	211,802
Chemical Stockpile Emergency Preparedness Program	97.040	PON209512000005372	2,513,657
Chemical Stockpile Emergency Preparedness Program	97.040	PO209513000036521	248,618
Chemical Stockpile Emergency Preparedness Program	97.040	PO209514000033041	581,645
97.040 Subtotal			3,343,920
Emergency Management Performance Grants	97.042	PON209514000003351	67,558
Emergency Management Performance Grants	97.042	PON209515000006541	69,679
97.042 Subtotal			137,237

Continued

Schedule of Expenditures of Federal Awards--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Expenditures
Homeland Security Grant Program	97.067	PO2 094 1400002977 1	18,371
Homeland Security Grant Program	97.067	PO2 094 1500003704 1	20,000
Homeland Security Grant Program	97.067	PO2 094 1400003000 2	70,239
Homeland Security Grant Program	97.067	PO2 094 1500002474 1	22,378
Homeland Security Grant Program	97.067	PO2 094 1500002472 1	70,000
97.067 Subtotal			200,988
Staffing for Adequate Fire & Emergency Response	97.083	EMW-2011-FH-00445	986,587
Total US Dept. of Homeland Security Office of Domestic Preparedness			4,880,534
Total Federal Financial Assistance			\$35,063,909

See Accompanying Notes to Schedule
of Expenditures of Federal Awards

Notes to Schedule of Expenditures of Federal Awards

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Note A--Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal agency grant activity for 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts included in the basic financial statements.

Note B--Subrecipients

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

CFDA Number	Program Name	Amounts Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 295,732
14.231	Emergency Solutions Grant Program	77,357
14.239	Home Investment Partnership Program	582,158
14.241	Housing Opportunities for Persons with AIDS	634,008
16.527	Supervised Visitation, Safe Havens for Children	172,370
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	21,818
16.738	Edward Byrne Memorial Justice Assistance Grant Program	65,656

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Section I - Summary of Auditors' Results

1. The Independent Auditors' Report expresses an unmodified opinion on the financial statements of Lexington-Fayette Urban County Government (the "Government").
2. Four significant deficiencies were noted related to internal control over financial reporting. There were no material weaknesses reported.
3. No instances of noncompliance material to the financial statements of the Government, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the internal control over major federal programs are reported.
5. The auditors' report on compliance for the major federal programs of the Government expresses an unmodified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The Government's major federal programs are as follows:

Name of Federal Program or Cluster	CFDA Number
Community Development Block Grants/Entitlement Grants	14.218
Public Safety Partnership and Community Policing Grants	16.710
Highway Planning and Construction Grant Cluster	
Highway Planning and Construction	20.205
Recreational Trails Program	20.219
Capitalization Grants for Clean Water State Revolving Funds	66.458
Staffing for Adequate Fire & Emergency Response	97.083

8. The threshold for distinguishing Types A and B programs was \$1,051,917
9. The Government qualified as a low-risk auditee.

Schedule of Findings and Questioned Costs--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Section II – Financial Statements Audit Findings

2015-001 - Informational Technology Systems – Safeguard and Security

Condition:

During our review of the Government's Information Technology ("IT") systems and related controls, several areas that should be strengthened. While the Government continues to work on improvements to the security of its system, the following areas could still be improved:

- Password requirements for access to the Government's network, PeopleSoft and Active Directory, such as complexity rules maximum password age, minimum password length, etc.
- Timely updating of the Active Directory user accounts to disable access no longer required.
- Ensuring employees of the Government have only those access levels necessitated by their respective roles and do not have access to PeopleSoft that would allow breach of segregation of duties (for example, certain employees have access to prepare and authorize transactions).
- Periodic logical segregation of duty reviews (which are not currently being performed across all platforms and systems).

Criteria:

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

Additionally, 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. Access to PeopleSoft should be restricted to ensure personnel have access only to those application and transaction types necessary for their position.

Cause:

The conditions are caused by:

- Not having adequate password policies in place,
- Not instituting a policy to regularly review user accounts to ensure that:
 - Access is appropriate for the employee's role;
 - Access does not breach logical segregation of duties; and
 - Access no longer required is disabled across all platforms and systems.

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.

Continued

Schedule of Findings and Questioned Costs--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Section II – Financial Statements Audit Findings--Continued

2015-001 - Informational Technology Systems – Safeguard and Security--Continued

Recommendation:

We recommend implementing the following security limits in the Windows Default Domain Policy and PeopleSoft Password Controls is not integrated:

- Password complexity should be enforced.
- Password history should be kept for 10 passwords.
- Password maximum age should be 90 days.
- Account lockout should be enforced after 5 attempts, with no automatic reset. Users must contact the helpdesk or use self-service to reset passwords.

Government's Response:

IT Management agrees that these controls are fundamental to system security and was in the process of implementing them at the time this audit was performed. IT has remediated these issues.

2015-002 – Segregation of Duties – Change Management – PeopleSoft Software

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 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.

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 could contain untested errors, or malicious codes, which could negatively impact critical IT systems.

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.

Continued

Schedule of Findings and Questioned Costs--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Section II – Financial Statements Audit Findings--Continued

2015-002 – Segregation of Duties – Change Management – People Soft--Continued

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 where possible. The responsibility for creation, approval, and application of changes should be assigned to different personnel to avoid undesired changes. At a minimum, 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:

With limited personnel, IT does not have the staffing capabilities to have fully segregated DEV/TEST and QA/PROD teams. To compensate for this control issue IT Management closely monitors a "production access log" in accordance with the Segregation of Duties policy as established in September of 2013. Quarterly "user rights audits" have been standard practice for the past three years.

IT Management agrees that a change management tracking and versioning application is a valuable tool and will address the functionality requirement when an ERP upgrade or replacement is funded.

2015-003 – Access to Banking Websites

Condition:

Our assessment of the Government's control over on-line access to banking information revealed an inadequate level of control. Our procedures found that:

- Users have access to functionality without knowing it or without knowing what to do with it. There are four Security Administrators for JPM Chase Bank and several of them have high levels of additional access which may be a segregation of duties issue.
- Users have access to all functionality which could be a segregation of duties issue. One of the users with access to all functions on the Republic Bank report is a bank employee.

Continued

Schedule of Findings and Questioned Costs--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Section II – Financial Statements Audit Findings--Continued

2015-003 – Access to Banking Websites--Continued

Criteria:

Controlling access to Banking websites is critical to safeguarding Government Assets. Limiting access to Government bank accounts is essential to reduce the risk of misappropriation of Government assets. Access to Government bank accounts online should be restricted to employee's for whom access is necessary to perform their job function.

Cause:

The condition is caused by:

- Managers are not aware of who is responsible for approving and managing access to bank websites.
- User access to bank websites is not reviewed for segregation of duties or required access.

Effect or Possible Effect:

Government assets could be misappropriated.

Recommendation:

We recommend contacting the Treasury Management department at each bank and meeting to review all website access to bank accounts to ensure security access matches the employees' job functions. The Treasury Management bank staff can interpret the access reports and identify conflicting permissions that are not immediately visible from the reports. Bank staff can also verify whether proper notifications are in place for ACH and Wire transactions and the daily limit for these transactions to prevent fraud.

Government's Response:

LFUCG Department of Finance will work with financial institutions to set up an annual review and evaluation of all user website access and roles to determine if there are any inactive users, conflicting entitlements and users with entitlements that are not necessary.

Continued

Schedule of Findings and Questioned Costs--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2015

Section II – Financial Statements Audit Findings--Continued

2015-004 – Controls over Credit Cards

Condition:

Encryption of data in transit and encryption of data stored in systems which maintain card numbers and track data is not enabled.

Criteria:

Controls over credit cards must be implemented to ensure proper handling and storage of data, purging of non-essential data and security over the transactions from receipt to destruction.

Cause:

All Payment Card Industry ("PCI") standards have not been enabled for internal systems and verified for vendor systems.

Effect or Possible Effect:

Failure to properly handle and store data and purge non-essential data could lead to theft of employee or vendor data which could leave the Government vulnerable to litigation from effected parties.

Government Response:

The Government implemented Kentucky Interactive ("KI") in August, 2015. Credit card information is no longer stored anywhere in our systems. This is not just limited to KI, but includes US Bank and Elavon.

Section III – Major Federal Program Award Findings and Questioned Costs

There are no findings or questioned costs relative to the major federal award programs which are required to be reported in accordance with *OMB Circular A-133, Section 510(a)*.

**Independent Auditors' Comments on
Resolution of Prior Year Findings**

Independent Auditors' Comments on Resolution of Prior Year Findings

Lexington-Fayette Urban County Government

For the Year Ended June 30, 2015

Prior Year Financial Statement Finding

2014-001 – Informational Technology Systems – Safeguard and Security

Condition:

During our review of the Government's IT systems and related controls, we noted that the Government continues to work on improvements to the security of its system, the following areas could still be strengthened:

- Password requirements for access to the Government's network, PeopleSoft and Active Directory, such as complexity rules maximum password age, minimum password length, etc.
- Timely updating of the Active Directory user accounts to disable access no longer required.
- Ensuring employees of the Government have only those access levels necessitated by their respective roles and do not have access to PeopleSoft that would allow breach of segregation of duties (for example, certain employees have access to prepare and authorize transactions).
- Periodic logical segregation of duty reviews (which are not currently being performed across all platforms and systems).

Recommendation:

We recommended that the government continue to review its current IT policies and procedures to ensure the following:

- Password policies are strengthened to so that, at a minimum, they are consistent with IT security best practices.
- Department and Divisional Directors ensure employees are adhering to established password policies and stress the importance of properly maintaining passwords.
- Perform user access reviews on at least an annual basis to determine that user access is appropriate, logical segregation of duties is maintained, and user access is timely updated for terminations and changes in roles.

Current Status:

The finding was not corrected and will be repeated in the current year.

Independent Auditors' Comments on Resolution of Prior Year Findings--Continued

Lexington-Fayette Urban County Government

For the Year Ended June 30, 2015

Prior Year Financial Statement Finding--Continued

2014-002 – Segregation of Duties – Change Management – PeopleSoft

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 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.

Recommendation:

We recommended that the Government review its policies and procedures related to systems changes and customization of PeopleSoft, and sure that the duties are adequately segregated where possible. The responsibility for creation, approval and application of changes should be assigned to different personnel to avoid undesired changes. At a minimum, 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.

Current Status:

The finding was not corrected and will be repeated in the current year.

Independent Auditors' Comments on Resolution of Prior Year Findings--Continued

Lexington-Fayette Urban County Government

For the Year Ended June 30, 2015

Prior Year Findings and Questioned Cost for Federal Awards

2014-003

Timeliness of Performance of, and Document Retention for, Program Requirements

Condition:

We identified the following matters during our testing:

- Evidence of review and approval of period reports was not documented on one SF-425A tested.
- A Transparency report on one grant had not been submitted timely.
- Documentation with regards to monitoring on one sub-recipient and inspection of one project was not properly maintained.
- Funds for one grant tested had not been completely drawdown within the period availability.
- Sub-recipient contracts on one grant had not been timely updated upon expiration of the grants.
- Maintenance and replacement reserves for one grant had not been established for one grant.

Recommendation:

We recommended that the government review policies and procedures, and consider acquisition/development of grant database software. This software should then be used a single repository for all grant related documentation. The software should also contain key requirements and deadlines within the grants. Periodically, the Government's grant personnel should review the contents of the database to ensure that data is properly and timely updated, and that all required documentation is being maintained within the system.

Current Status:

The finding was corrected in the current year.