



# Lexington-Fayette Urban County Government

## Division of Internal Audit

### **INTERNAL AUDIT REPORT**

January 28, 2004

TO: Teresa Ann Isaac, Mayor

CC: Milton Dohoney, Chief Administrative Officer  
Donna Counts, Commissioner of Finance

FROM: Bruce Sahli, Director of Internal Audit

RE: Outside Agencies and Special Projects Purchase of Service Agreements Audit

#### **Background**

Outside Agencies are organizations separate from Lexington Fayette Urban County Government (LFUCG) that provide goods and services to the community. They receive funding, in whole or in part, from LFUCG to provide financial resources used in carrying out their specific missions. Outside Agencies can be either Component or Other Agencies. Component Outside Agencies can be blended (i.e., Agencies that are, in substance, the same as the government, despite being legally separate) or discretely presented (i.e., the government appoints the governing body and the agencies are fiscally dependent on the government). Other Outside Agencies are totally separate from the government, have independently appointed Boards, and receive only a portion of their funding from LFUCG. Special Projects are programs funded in part by LFUCG relating to the arts, sports, cultural events, and beautification of the community.

On September 16, 2003 the Urban County Council voted to request that the Internal Audit Board consider authorizing a review of Purchase of Service Agreements for all Outside Agencies and Special Projects receiving LFUCG funds. This request was approved by the Internal Audit Board on October 7, 2003.

#### **Scope and Objectives**

The general control objectives of the audit were to determine:

- Purchase of Service Agreements exist for all Outside Agencies and Special Projects.
- The Purchase of Service Agreements contain language specifying the appropriate use of LFUCG funds.
- The Purchase of Service Agreements are properly executed.
- Outside Agencies and Special Projects funding is consistent with the Purchase of Service Agreements and approved budgets as amended.
- Controls are in place to provide effective review to ensure annual renewal of Purchase of Service Agreements when applicable.

### **Statement of Auditing Standards**

We conducted our audit in accordance with generally accepted government auditing standards. 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.

### **Summary of Audit Findings**

#### **Purchase of Service Agreements Not Obtained**

For FY 2004, Purchase of Service Agreements have not been obtained for the eight Special Projects listed below:

Arts Program  
 Eldercrafters  
 Lexington Area Sports Authority  
 MLK, Jr. Celebration  
 Public Art  
 Race Relations  
 Shakespeare in the Park  
 Sister Cities Program

The Purchase of Service Agreement is a legally binding contract that specifies the Special Project's responsibilities with regards to the appropriate use of LFUCG funds. The Agreement also includes language indemnifying LFUCG against any claim or liability arising from the

organization's violation of any laws, as well as other important stipulations regarding the organization's responsibility for maintaining appropriate records, providing equal employment opportunities, and LFUCG's right to monitor and evaluate the services rendered by the organization.

It is recommended that Purchase of Service Agreements be obtained for all Special Projects receiving funding from LFUCG, unless they would be superceded by other agreements or contracts. Controls should also be put into place to ensure the annual renewal of Purchase of Service Agreements on a consistent basis when applicable.

Office of the Chief Administrative Officer Management Response: The Office of the Chief Administrative Officer agrees with the recommendation and will instruct management personnel to obtain Purchase of Service Agreements for these Special Projects. Management will also be instructed to obtain annual renewals of Purchase of Service Agreements for these Special Projects when applicable.

#### Programs Lacking Budgetary Oversight

There are several programs administered by LFUCG being accounted for in General Ledger Account 399 (Other Liabilities) that should be considered for a budgetary process applicable to such programs. Some examples include the Kentucky Christmas Chorus, Gainesway Empowerment Center, Senior Citizen's Center, Cardinal Valley Center, and Police 911 Band.

These programs and others like them should be considered for some type of accounting treatment which would allow for the flexibility necessary to account for the donation activity common to such programs while providing budgetary controls. It is recommended the Other Liabilities account be reviewed to identify all such programs that would benefit from the improved tracking and accountability provided by this budgetary process, and that the budgetary process be subsequently implemented.

Department of Finance Management Response: The Department of Finance agrees with the recommendation. The Division of Accounting had made several attempts to close the 399 accounts over the years, but difficulties related to certainty of re-appropriation of donated funds and program related revenues have resulted in resistance on the part of program administrators to close these accounts. We will attempt to identify a fund/program structure that can accommodate the budgetary goals and give assurance as to the use of donated funds for specified purposes.

#### Accounting Services Provided to Special Projects

LFUCG has provided limited accounting services related to annual appropriations for the Roots and Heritage Festival and Elder Craftsmen since at least 1996. These two programs are administered by entities outside LFUCG. In our opinion, all accounting services for these two organizations should be administered by personnel affiliated with the respective organizations.

It is recommended that LFUCG cease providing accounting services to the Roots & Heritage Festival and Elder Craftsmen, and that all such duties be turned over to the respective program's Board of Directors for appropriate oversight responsibilities.

Office of the Chief Administrative Officer Management Response: The Office of the Chief Administrative Officer appreciates the issue addressed in the finding and recognizes the merits of the audit recommendation. However, it is the decision of management that the accounting services for these two organizations should be continued in order to provide oversight of activity associated with their annual appropriations.