

Reports Required by the Single Audit Act

2016

Lexington-Fayette Urban County Government

June 30, 2016



Strothman+Co

Reports Required by the Single Audit Act

Lexington-Fayette Urban County Government

June 30, 2016

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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, 2016, 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 22, 2016. 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. 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

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 Government'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 Government'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 Government's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

STROTHMAN AND COMPANY

Louisville, Kentucky
November 22, 2016

**Independent Auditors' Report on Compliance for
Each Major Program; on Internal Control
Over Compliance; and on the Schedule
of Expenditures of Federal Awards
Required by the Uniform Guidance**



**Independent Auditors' Report on Compliance for
Each Major Program; on Internal Control Over
Compliance; and on the Schedule of Expenditures
of Expenditures of Federal Awards
Required by the Uniform Guidance**

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 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, 2016. 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 \$19.2 million in federal awards which are not included in the Government's Schedule of Expenditures of Federal Awards during the year ended June 30, 2016. 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 the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance").

Those standards and the Uniform Guidance 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, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and is described in the accompanying Schedule of Findings and Questioned Costs as 2016-001. Our opinion on each major federal program is not modified with respect to this matter.

The Government's response to the noncompliance finding 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 compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2016, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements. We issued our report thereon dated November 22, 2016, 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 the Uniform Guidance 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 as whole.

STROTHMAN AND COMPANY

Louisville, Kentucky

January 26, 2017, except for the last two paragraphs,
for which the date is November 22, 2016

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards

Lexington-Fayette Urban County Government

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Passed Through to Subrecipients Expenditures	Federal Expenditures
US Department of Agriculture:				
Direct Programs:				
Child and Adult Care Food Program	10.558	11475		\$ 11,488
Child and Adult Care Food Program	10.558	11475		48,445
Total US Department of Agriculture				59,933
US Department of Housing and Urban Development:				
Direct Programs:				
Community Development Block Grants, Section 108 Loan Guarantees	14.248	B12MC210004		6,000,000
Community Development Block Grants/Entitlement Grants	14.218	B13MC210004	\$ 120,779	689,615
Community Development Block Grants/Entitlement Grants	14.218	B14MC210004	132,295	671,941
Community Development Block Grants/Entitlement Grants	14.218	B15MC210004	23,854	379,954
14.218 Subtotal			276,928	1,741,510
Emergency Solutions Grant Program	14.231	E14MC210003	34,193	36,635
Emergency Solutions Grant Program	14.231	E15MC210003	80,509	57,228
14.231 Subtotal			114,702	93,863
Home Investment Partnerships Program	14.239	M13MC210201	130,900	64,035
Home Investment Partnerships Program	14.239	M14MC210201	261,235	482,672
Home Investment Partnerships Program	14.239	M15MC210201	11,640	60,436
14.239 Subtotal			403,775	607,143
Housing Opportunities for Persons with AIDS	14.241	KY-H14-0011	558,261	19,359
Total US Department of Housing and Urban Development			1,353,666	8,461,875
US Department of Justice:				
Direct Programs:				
Law Enforcement Assistance_Narcotics and Dangerous Drugs_Laboratory Analysis	16.001	NA		336,047
Supervised Visitation, Safe Havens for Children	16.527	2013-FL-AX-K011	125,992	2,876
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2011-WE-AX-0011	31,964	56,660
State Criminal Alien Assistance Program	16.606	2012-AP-BX-0690		17,807
Public Safety Partnership and Community Policing Grants	16.710 ARRA	2011ULWX0015		847,213
Direct Programs:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0325		1,922
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-DJ-BX-0578		158,852
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0335		145,983
Passed through Commonwealth of Kentucky:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2014-JAG-LFUCG-STRE-01051		22,507
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-JAG-LFUCG-STRE-01084		17,513
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-JAG-LFUCG-STRE-01084	44,375	
16.738 Subtotal			44,375	346,777

Continued

Schedule of Expenditures of Federal Awards--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Passed Through to Subrecipients Expenditures	Federal Expenditures
Juvenile Accountability Block Grant	16.523	JABG-2014-LFUCG St-00006		569
Juvenile Accountability Block Grant	16.523	JABG-2015-LFUCG St-00005		1,234
16.523 Subtotal				1,803
Violence Against Women Formula Grants	16.588 ARRA	VAWA-2014-LFUCG-ST-00383		13,992
Violence Against Women Formula Grants	16.588 ARRA	VAWA-2015-LFUCG-ST-00438		12,067
16.588 Subtotal				26,059
Total US Department of Justice			202,331	1,635,242
US Department of Labor:				
WIA Cluster				
Passed through Commonwealth of Kentucky:				
WIA/WIOA Youth Activities	17.259	15-006Y		11,748
WIA/WIOA Youth Activities	17.259	16-006Y		60,858
Total US Department of Labor				72,606
US Department of Transportation:				
Highway Planning and Construction Cluster				
Passed through Commonwealth of Kentucky:				
Highway Planning and Construction	20.205	1500006243		48,779
Highway Planning and Construction	20.205	1500006243		32,209
Highway Planning and Construction	20.205	C-05396856		752
Highway Planning and Construction	20.205	C-03328686		3,515,561
Highway Planning and Construction	20.205	PO2-625-1500002693		311,326
Highway Planning and Construction	20.205	150006243		45,540
Highway Planning and Construction	20.205	PO2-625-16000013801		19,980
Highway Planning and Construction	20.205	1500003920		361,600
Highway Planning and Construction	20.205	PO2-628-1300002569		5,433
Highway Planning and Construction	20.205	PO2-628-130001253		3,443
Highway Planning and Construction	20.205	PO2-625-150000357		463,476
Highway Planning and Construction	20.205	PO2-625-1600002350		53,779
Highway Planning and Construction	20.205	PO2-625-1200003879		164,735
Highway Planning and Construction	20.205	PO2-628-1400005764		77,432
Highway Planning and Construction	20.205	PO2-625-1500000828		55,358
Highway Planning and Construction	20.205	C-04073306		183,658
Highway Planning and Construction	20.205	PO2-628-1100001626		15,049
Highway Planning and Construction	20.205	PO2-625-1400004868		45,685
Highway Planning and Construction	20.205	PO2-625-1400004867		21,626
Highway Planning and Construction	20.205	PO2-625-1400004869		6,497
Highway Planning and Construction	20.205	C-00343167		926,973
Highway Planning and Construction	20.205	C-00343167		603,303
Highway Planning and Construction	20.205	PO2-628-1500003392		19,400
Highway Planning and Construction	20.205	PO2-625-1300001036		81,844
Highway Planning and Construction	20.205	C-01099430		119,647
Highway Planning and Construction	20.205	PO2-628-1100004324		46,605
Highway Planning and Construction	20.205	PO2-628-12000044353		2,221
Highway Planning and Construction	20.205	PO2-628-1500004792		58,624
Highway Planning and Construction	20.205	PO2-628-150003706		683,495
Highway Planning and Construction	20.205	PO2-625-1500006243		102,000
20.205 Subtotal				8,076,030

Continued

Schedule of Expenditures of Federal Awards--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Passed Through to Subrecipients Expenditures	Federal Expenditures
Recreational Trails Program	20.219	RTP 484-13		4,151
Recreational Trails Program	20.219	1000003084		(23,374)
Total Highway Planning and Construction Cluster				8,056,807
Passed through Commonwealth of Kentucky:				
Motor Carrier Safety Assistance	20.218	No Number		54,540
Motor Carrier Safety Assistance	20.218	No Number		1,902
Motor Carrier Safety Assistance	20.218	No Number		9,598
20.218 Subtotal				66,040
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	1600000549		48,400
Highway Safety Cluster				
State and Community Highway Safety	20.600	PT-15-27		21,240
State and Community Highway Safety	20.600	PT-16-30		16,527
20.600 Subtotal				37,767
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	M5-15-21		21,809
National Priority Safety Programs	20.616	M2HVE-16-12		13,424
National Priority Safety Programs	20.616	M2HVE-2016-MG-00-23		4,625
Total Highway Safety Cluster				77,625
Total US Department of Transportation				8,248,872
US Environmental Protection Agency				
Direct Programs:				
Brownfields Assessment and Cleanup Cooperative Agreements	66.818 ARRA	BF-00D33315		75,851
Brownfields Assessment and Cleanup Cooperative Agreements	66.818 ARRA	PON2 129 1600030561		12,000
Passed through Commonwealth of Kentucky:				
Nonpoint Source Implementation Grants	66.460	C9994861-09		230,282
Nonpoint Source Implementation Grants	66.460	PON2 129 1400000015		102,171
				332,453
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		657,552
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A12-16 SWR		516,625
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-003 SWR		64,104
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-003 SWR		1,037,834
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-003 SWR		2,856,366
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-007 WQ		360,286
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-007 WQ		435,069
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-15 SWR		10,879,111
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-002 SWR		95,988
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-002 SWR		4,121,102
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A13-007 WQ		117,932
Capitalization Grants for Clean Water State Revolving Funds	66.458 ARRA	A14-001 SWR		3,909,823
66.458 Subtotal				25,051,792
Total US Environmental Protection Agency				25,472,096

Continued

Schedule of Expenditures of Federal Awards--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Passed Through to Subrecipients Expenditures	Federal Expenditures
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-2015-2016		66,290
Grants to States for Access and Visitation Programs	93.597	2013-1014-PUBLIC-R		255,664
Grants to States for Access and Visitation Programs	93.597	2014-2015-PUBLIC-R		23,084
Total US Department of Health and Human Services				345,038
US Department of Homeland Security Office of Domestic Preparedness:				
Passed through Commonwealth of Kentucky:				
Hazard Mitigation Grant	97.039	PON209513000000082		2,081
Hazard Mitigation Grant	97.039	PON209512000039332		200,193
Hazard Mitigation Grant	97.039	PON209513000000094		26,173
97.039 Subtotal				228,447
Chemical Stockpile Emergency Preparedness Program	97.040	PON209512000005372		891,667
Chemical Stockpile Emergency Preparedness Program	97.040	PO209513000036521		167,192
Chemical Stockpile Emergency Preparedness Program	97.040	PO209514000033041		371,655
Chemical Stockpile Emergency Preparedness Program	97.040	PO209515000044461		349,969
97.040 Subtotal				1,780,483
Emergency Management Performance Grants	97.042	PON209515000006541		28,973
Emergency Management Performance Grants	97.042	PO209516000021481		72,329
97.042 Subtotal				101,302
Passed through Commonwealth of Kentucky:				
Pre-Disaster Mitigation	97.047	PON2 095 1500002494 1		751,266
Homeland Security Grant Program	97.067	PO2 094 1600002021 1		7,000
Homeland Security Grant Program	97.067	PO2 094 1500002474 1		11,622
Homeland Security Grant Program	97.067	PO2 094 1600002323 1		23,762
Homeland Security Grant Program	97.067	PO2 094 1600002020 1		65,000
97.067 Subtotal				107,384
Total US Dept. of Homeland Security Office of Domestic Preparedness				2,968,882
US Election Assistance Commission				
Passed through Commonwealth of Kentucky:				
Help America Vote Act Requirements Payments	90.401	N/A		105,600
Totals			\$1,555,997	\$47,370,144
Grand Total of Direct Federal Expenditures and Amounts Passed Through to Subrecipients				\$48,926,141

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, 2016

Note A--Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes federal award activity for Lexington-Fayette Urban County Government (the "Government") under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Government it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Government.

Amounts in the column titled "Federal Expenditures" represent amounts expended related to programs managed by the Government. Amounts in the column titled "Passed Through to Subrecipient Expenditures" represent amounts expended by subrecipients. Such amounts are not included in the Federal Expenditures column.

Note B--Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments to or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note C--Indirect Cost Rate

The Government has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note D--Section 108 Loan Guarantee

The Government has a Community Development Block Grant Section 108 Loan Guarantee, which is guaranteed by the Department of Housing and Urban Development. As determined by the 2 CFR Section 200.502(b), the federal expenditures amount represents the value of loans made in the year ended June 30, 2016.

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Lexington-Fayette Urban County Government

Year Ended June 30, 2016

Section I - Summary of Auditors' Results

1. The Independent Auditors' Report expresses an unmodified opinion on whether the financial statements of Lexington-Fayette Urban County Government (the "Government") were prepared in accordance with GAAP.
2. No material weaknesses or significant deficiencies relating to the audit of the financial statements are 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. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported. No material weaknesses are reported.
5. The auditors' report on compliance for the major federal award programs for the Government expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with the 2 CFR Section 200.516(a) are reported in this Schedule.
7. The programs tested as major programs are as follows:

Name of Federal Program or Cluster	CFDA Number
Community Development Block Grants Section 108 Loan Guarantees	14.248
Highway Planning and Construction Grant Cluster	
Highway Planning and Construction	20.205
Recreational Trails Program	20.219
Pre-Disaster Mitigation	97.047

8. The threshold used for distinguishing between Type A and B programs was \$1,467,784.
9. The Government was determined to be a low-risk auditee.

Schedule of Findings and Questioned Costs--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2016

Section III – Major Federal Program Award Finding and Questioned Costs

2016-001 – Special Test and Provision – Prevailing Wage

Federal Award Information: Highway Planning and Construction
CFDA: 20.205

Condition:

During our testing of the Newtown Pike Extension project, we noted that the required certified payrolls were not submitted for the work performed.

Criteria:

All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor ("DOL") (40 USC 3141-3144, 3146, and 3147). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Questioned Cost:

None

Cause:

The condition is caused by the contractor not being made aware that Newtown Pike Extension Project is subject to the Department of Labor Prevailing Wage requirements.

Effect:

Failure to comply with the Prevailing Wage requirements as set forth by the Department of Labor could jeopardize the Government's access to federal funds.

Recommendation:

We recommend the Government acquire a new contract with the contractor which includes the prevailing wage rate clause and acquire the required certified payrolls going forward

View of Responsible Officials and Planned Corrective Action:

The Government's Division of Grants and Special Programs agrees with the findings and recommendation and will obtain a new contract and the required certified payrolls going forward.

Summary Schedule of Prior Audit Findings

Summary Schedule of Prior Audit Findings

Lexington-Fayette Urban County Government

For the Year Ended June 30, 2016

Prior Year Financial Statement Finding

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).

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.

Current Status:

The finding was corrected in the current year.

Summary Schedule of Prior Audit Findings--Continued

Lexington-Fayette Urban County Government

For the Year Ended June 30, 2016

Prior Year Financial Statement Finding--Continued

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.

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.

Current Status:

The finding was corrected in the current year.

Summary Schedule of Prior Audit Findings--Continued

Lexington-Fayette Urban County Government

For the Year Ended June 30, 2016

Prior Year Financial Statement Finding--Continued

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.

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.

Current Status:

The finding was corrected in the current year.

Continued

Summary Schedule of Prior Audit Findings--Continued

Lexington-Fayette Urban County Government

Year Ended June 30, 2016

Prior Year Financial Statement Finding--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.

Current Status:

The finding was corrected in the current year.