REPORT OF THE SINGLE AUDIT OF THE LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT

For the Year Ended
June 30, 2009

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

March 24, 2010

Honorable Jerry E. Abramson, Mayor
Louisville Metro Council

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Single Audit of the Louisville/Jefferson County Metro Government (Metro Government) for the year ended June 30, 2009. The Federal Government's Office of Management and Budget (OMB), per OMB Circular A-133 requires the Auditor of Public Accounts to perform the Single Audit of Metro Government.

On behalf of the Office of Financial Audit of the Auditor of Public Accounts, I wish to thank the employees of Metro Government for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact Sally Hamilton, Executive Director, Office of Financial Audits, or me.

Respectfully submitted,

Crit Luallen
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INTRODUCTION

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2009

Single Audit Report

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, performed the single audit of the Louisville/Jefferson County Metro Government (Metro) for the year ending June 30, 2009.

The APA prepares the Single Audit Report in compliance with *Government Auditing Standards*, Generally Accepted Auditing Standards, and the requirements of Office of Management and Budget (OMB) Circular A-133. The APA on behalf of Metro also prepares a reporting package as required by OMB Circular A-133. The reporting package includes the basic financial statements, Schedule of Expenditures of Federal Awards (SEFA), auditor's reports, Schedule of Findings and Questioned Costs, and Summary Schedule of Prior Audit Findings. For the fiscal year ended June 30, 2009 (FY 09), the reporting package is comprised of two reports: the Comprehensive Annual Financial Report (CAFR) and the Single Audit Report.

Comprehensive Annual Financial Report

The CAFR contains the Independent Auditor's Report, which identifies the auditor's opinion or disclaimer of opinion on the various opinion units applicable to the basic financial statements of Metro. The Independent Auditor's Report also discloses the percentages of various funds and component units audited by other auditors. The agencies and funds audited by other auditors, as well as contact information, are presented in Appendix A of this report. The scope of the CAFR audit included:

- An audit of the basic financial statements, and combining and individual fund statements;
- Limited procedures applied to required supplementary information; and
- An audit of the SEFA in relation to the basic financial statements, the opinion for which is included in the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*.

Single Audit of Major Federal Programs

The Single Audit Report contains the auditor's *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* and *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards*. The Single Audit Report also contains the SEFA, Schedule of Findings and Questioned Costs, and the Summary Schedule of Prior Audit Findings. The scope of the audit of federal awards included:

- An audit of compliance with the compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each major federal program; and
- Tests of internal control over compliance in accordance with OMB Circular A-133.

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INTRODUCTION (Continued)

Schedule of Expenditures of Federal Awards

The SEFA is organized by federal grantor. The Catalog of Federal Domestic Assistance (CFDA) numbers and program names are listed under the federal grantor administering the program. The notes to the SEFA provide additional information on certain aspects of the expenditures. Clusters of programs are indicated in the schedule by light gray shading.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three (3) sections: Summary of Auditor's Results, Financial Statement Findings, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the type of audit reports issued and lists major programs audited. The Financial Statement Findings list the audit findings related to the financial statements. The Federal Award Findings and Questioned Costs list findings related to federal awards. In both sections, material weaknesses and material instances of noncompliance are presented first, then significant deficiencies and significant instances of noncompliance.

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for FY 08, as well as any findings of previous fiscal years that have not been resolved, are reported in the Summary Schedule of Prior Audit Findings for FY 09.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was a material weakness or significant deficiency. The findings of each classification (material weakness and significant deficiency) are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

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LIST OF ABBREVIATIONS/ACRONYMS

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2009

AAA	Animal Adoption Agency, Inc
AAHC	African-American Heritage Center
AIDS	Acquired Immunodeficiency Syndrome
APA	Auditor of Public Accounts
ARRA	American Recovery and Reinvestment Act
BZPP	Buffer Zone Protection Program
CAB	Change Advisory Board
CAFR	Comprehensive Annual Financial Report
CAK	Community Action Kentucky
CAP	Metro Community Action Partnership
CAPER	Consolidated Annual Performance and Evaluation Report
CDBG	Community Development Block Grant
CDL	Commercial Driver’s License
CERS	County Employees Retirement System
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulation
CHFS	Cabinet for Health and Family Services
CIN	Corrections Identification Number
CMC	Court Monitoring Center
CPA	Certified Public Accountant
CSBG	Community Services Block Grant
DHFS	Metro Department of Housing and Family Services
DHS	Kentucky Department of Homeland Security
DOL	U.S. Department of Labor
DPW	Metro Department of Public Works
EPLS	Excluded Parties List System
FBI	Federal Bureau of Investigation
FEMA	Federal Emergency Management Agency
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GASB	Governmental Accounting Standards Board
HFS	Metro Housing and Family Services Department
HHS	U.S. Department of Health and Human Services
HIDTA	High Intensity Drug Trafficking Areas
HIV	Human Immunodeficiency Virus
HOME	HOME Investment Partnership Program
HUD	U.S. Department of Housing and Urban Development
HVAC	Heating, Ventilation, and Air Conditioning
IDIS	Integrated Disbursement and Information System
IMS	Inmate Management System
INC	Incorporated
IT	Information Technology
ITIL	Information Technology Infrastructure Library
JV	Journal Voucher
KDE	Kentucky Department of Education
KIPDA	Kentuckiana Regional Planning and Development Agency

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
LIST OF ABBREVIATIONS/ACRONYMS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

KRS	Kentucky Revised Statutes
KY	Kentucky
KyEM	Kentucky Emergency Management
KYTC	Kentucky Transportation Cabinet
LeAP	Louisville e-Financial Application Program
LIHEAP	Low-Income Home Energy Assistance Program
LMFD	Louisville Metro Fire Department
LMPD	Louisville Metro Police Department
MAS	Metro Animal Services
Metro	Louisville/Jefferson County Metro Government
MTS	Metro Technology Services
NA	Not Applicable
NFA	Notice of Funds Availability
OIA	Metro Office of Internal Audit
OMB	Office of Management and Budget
PIU	Metro Police Department - Public Integrity Unit
POS	Point of Sale
PPAF	Position and Personnel Action Form
PSB	Public Sector Budgeting
PSD	Procurement and Suspension and Debarment
PW	Project Worksheet
PWA	Metro Public Works and Assets
RFC	Request For Change
RFP	Request For Proposal
SEFA	Schedule of Expenditures of Federal Awards
SFSPC	Summer Food Service Program for Children
SOP	Standard Operating Procedures
SPC	Shelter Plus Care
TBRA	Tenant Based Rental Assistance
TE	Transportation Enhancement
TPA	Third Party Administrator
U.S.	United States
USDA	U.S. Department of Agriculture
WIA	Workforce Investment Act

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

CFDA	Program Title	Pass Through Number	Expenditures	Provided to Subrecipient
U.S. Department of Agriculture				
Direct Programs:				
Supplemental Nutrition Assistance Program Cluster:				
10.551	Supplemental Nutrition Assistance Program		$ 916	$
10.580	Supplemental Nutrition Assistance Program, Outreach/Participation Program		173,075	
10.NA	More Kids in the Wood		4,389	
Passed Through From the Kentucky Department of Natural Resources:				
10.069	Conservation Reserve Program	M-02021352	12,332	
Passed Through From the Kentucky Department of Public Health:				
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Various	2,504,884	
Passed Through From the Kentucky Department of Education:				
10.559	Summer Food Service Program for Children	056-W45-999-SU	917,678	
Total U.S. Department of Agriculture			$ 3,613,274	$ 0
U.S. Department of Commerce				
Direct Programs:				
11.307	Economic Adjustment Assistance		$ 275,000	$
11.555	Public Safety Interoperable Communications Grant Program		699,738	
Total U.S. Department of Commerce			$ 974,738	$ 0
U.S. Department of Defense				
Direct Programs:				
12.NA	Division of the Navy - Guard Services Contract		$ 167,517	$
Total U.S. Department of Defense			$ 167,517	$ 0
U.S. Department of Housing and Urban Development				
Direct Programs:				
Community Development Block Grants - State-Administered Small Cities Program				
14.218	Community Development Block Grants/Entitlement Grants (Note 2)		$ 11,863,524	$ 632,676
14.219	Community Development Block Grants/Small Cities Program (Note 2)		57,034	
14.231	Emergency Shelter Grants Program		575,868	582,453
14.235	Supportive Housing Program		165,698	
14.238	Shelter Plus Care		1,578,511	
14.239	Home Investment Partnerships Program (Note 2)		6,498,710	
14.241	Housing Opportunities for Persons with AIDS		510,664	405,517
14.246	Community Development Block Grants/Brownfields Economic Development Initiative		161,676	
14.871	Section 8 Housing Choice Vouchers		937	
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing		845,396	
Total U.S. Department of Housing and Urban Development			$ 22,258,018	$ 1,620,646

See accompanying Notes to the Schedule of Expenditures of Federal Awards

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

CFDA	Program Title	Pass Through Number	Expenditures	Provided to Subrecipient
U.S. Department of the Interior				
Passed Through From the Kentucky Commerce Cabinet:				
15.929	Save America's Treasures	21-08-21722	$ 3,820	$
Passed Through From the Kentucky Department of Fish & Wildlife:				
15.622	Sportfishing and Boating Safety Act	Agreement	445,238	
Total U.S. Department of the Interior			$ 449,058	$ 0
U.S. Department of Justice				
Direct Programs:				
16.004	Law Enforcement Assistance_Narcotics and Dangerous Drugs Training		$ 24,716	$
16.305	Law Enforcement Assistance_Uniform Crime Reports		47,063	
16.527	Supervised Visitation, Safe Havens for Children		136,120	124,773
16.560	National Institute of Justice Research Evaluation and Development Project Grants		91,636	
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		357,898	
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders		251,059	
16.595	Community Capacity Development Office		137,865	
16.607	Bulletproof Vest Partnership Program		2,668	
16.609	Community Prosecution and Project Safe Neighborhoods		142,253	110,188
16.710	Public Safety Partnership and Community Policing Grants		458,083	
16.738	Edward Byrne Memorial Justice Assistance Grant Program		97,071	
16.744	Anti-Gang Initiative		148,422	
Passed Through From the Kentucky Justice and Public Safety Cabinet:				
16.523	Juvenile Accountability Block Grants	Various	26,024	
16.540	Juvenile Justice and Delinquency Prevention_Allocation to States	Various	10,734	
16.579	Edward Byrne Memorial Formula Grant Program	Various	197,076	
16.588	Violence Against Women Formula Grants	Various	131,504	
Total U.S. Department of Justice			$ 2,260,192	$ 234,961
U.S. Department of Labor				
Passed Through From the Kentucky Department for Workforce Investment:				
17.245	Trade Adjustment Assistance	Various	$ 590,937	$
Workforce Investment Act Cluster:				
17.258	WIA Adult Program (Note 2)	Various	2,099,592	2,011,708
17.258	ARRA- WIA Adult Program (Note 2)	270S9AD	350	
17.259	WIA Youth Activities (Note 2)	Various	1,653,326	1,182,863
17.259	ARRA- WIA Youth Activities (Note 2)	274S9YT	227,615	
17.260	WIA Dislocated Workers (Note 2)	Various	7,982,636	285,488
17.260	ARRA- WIA Dislocated Workers (Note 2)	Various	188,239	
Total U.S. Department of Labor			$ 12,742,695	$ 3,480,059
U.S. Department of Transportation				
Passed Through From the Kentucky Transportation Cabinet:				
15.904	Historic Preservation Fund Grants-In-Aid	NA	$ 39,112	$
Highway Planning and Construction Cluster:				
20.205	Highway Planning and Construction (Note 2)	Various	8,471,411	
20.215	Highway Training and Education	Various	381,349	
20.218	National Motor Carrier Safety	Various	158,387	
20.219	Recreational Trails Program	Various	3,113	

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

CFDA	Program Title	Pass Through Number	Expenditures	Provided to Subrecipient
U.S. Department of Transportation (Continued)				
Passed Through From the Kentucky Transportation Cabinet (Continued):				
Highway Safety Cluster:				
20.600	State and Community Highway Safety	Various	88,147	
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants	LSF-683-L1/08	40,006	
20.NA	Underage Drinking Prevention	Various	58,751	
Total U.S. Department of Transportation			$ 9,240,276	$ 0
U.S. Equal Employment Opportunity Commission				
Direct Programs:				
30.002	Employment Discrimination_State and Local Fair Employment Practices Agency Contracts		$ 6,546	$
Total U.S. Equal Employment Opportunity Commission			$ 6,546	$ 0
U.S. Department for Libraries and Archives				
Direct Programs:				
45.310	Grants to States		$ 28,500	$
Total U.S. Department for Libraries and Archives			$ 28,500	$ 0
U.S. Environmental Protection Agency				
Direct Programs:				
66.001	Air Pollution Control Program Support		$ 1,582,126	$
66.032	State Indoor Radon Grants		135,000	
66.202	Congressionally Mandated Projects		28,378	
66.818	Brownsfields Assessment and Cleanup Cooperative Agreements		12,390	
Total U.S. Environmental Protection Agency			$ 1,757,894	$ 0
U.S. Department of Education				
Direct Programs:				
84.044	TRIO_Talent Search		$ 302,015	$
84.066	TRIO_Educational Opportunity Grant		469,291	
Total U.S. Department of Education			$ 771,306	$ 0
U.S. Department of Health and Human Services				
Direct Programs:				
93.008	Medical Reserve Corps Small Grant Program		$ 4,009	$
93.048	Special Programs for the Aging_Title IV_and Title II_Discretionary Projects		130,052	89,628
93.110	Maternal and Child Health Federal Consolidated Programs		60,295	
93.887	Health Care and Other Facilities		360,303	
93.926	Healthy Start Initiative		1,214,761	
Passed Through From the Kentuckiana Regional Planning and Development Agency (KIPDA):				
93.044	Special Programs for the Aging_Title III, Part B_Grants for Supportive Services and Senior Centers	PON2-725 0800008665	15,000	
93.045	Special Programs for the Aging_Title III, Part C_Nutrition Services	Various	485,742	96,625
Passed Through From the Kentucky Cabinet for Health and Family Services:				
81.042	Weatherization Assistance for Low-Income Persons	736-08000084111 Subcontract #24	676,625	
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	U52CCU400496 (SDFD)	135,715	
93.197	Childhood Lead Poisoning Prevention Projects _ State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	US7/CCU-422866-03 (SJBW)	225,594	
93.217	Family Planning _ Services	5 FPHPA040612-35-00 (SBBH)	715,459	462,656
93.235	Abstinence Education Program	G-0601KYAEGP (SBB7)	22,735	

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

CFDA	Program Title	Pass Through Number	Expenditures	Provided to Subrecipient
U.S. Department of Health and Human Services (Continued)				
Passed Through From the Kentucky Cabinet for Health and Family Services (Continued):				
Immunization Cluster:				
93.268	Immunization Grants	H23CCH422527 (SDFB)	214,480	
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	Various	686,967	39,758
Temporary Assistance for Needy Families Cluster:				
93.558	Temporary Assistance for Needy Families	PON2-736-0800009693-1	950,434	636,600
93.568	Low-Income Home Energy Assistance (Note 2)	Subcontract #15	6,568,242	
Community Services Block Grant Cluster:				
93.569	Community Services Block Grant	Various	1,519,438	
93.767	Children's Health Insurance Program	05-0505KY5021 (SJBD)	47,229	
Medicaid Cluster:				
93.778	Medical Assistance Program	05-0505KY5048 (SAAG + SCCG)	20,617	
93.889	National Bioterrorism Hospital Preparedness Program	6U3RH505962	48,529	
93.940	HIV Prevention Activities _ Health Department Based	U62/CCU423518 (SDGH)	124,500	
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	U62CCU423571 (SDGP)	41,900	
93.945	Assistance Programs for Chronic Disease Prevention and Control	U50/CCU421288.04 (SJKU & SCBH)	5,928	
93.977	Preventive Health Services _ Sexually Transmitted Diseases Control Grants	H52CCH404333 (SDFG)	64,701	45,587
93.991	Preventive Health and Health Services Block Grant	Various	95,723	
93.994	Maternal and Child Health Services Block Grant to the States	B04MC037803 (SJBB)	778,402	110,367
Passed Through From the Kentucky Division of Substance Abuse:				
93.959	Block Grants for Prevention and Treatment of Substance Abuse	M-06139639	1,042,438	
Total U.S. Department of Health and Human Services			$ 16,255,818	$ 1,481,221
U.S. Corporation for National and Community Service				
Direct Programs:				
94.002	Retired Senior Volunteer Program		$ 166,989	$
Foster Grandparents/Senior Companion Cluster:				
94.011	Foster Grandparent Program		418,585	
Passed Through From the Kentucky Cabinet for Health and Family Services:				
94.006	AmeriCorps	PON2 730 0800006798 2	177,096	
Total U.S. Corporation for National and Community Service			$ 762,670	$ 0
U. S. Department of Homeland Security				
Direct Programs:				
97.024	Emergency Food and Shelter National Board Program		$ 190,225	$
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters) (Note 2)		10,447,237	
97.056	Port Security Grant Program		276,657	
Homeland Security Cluster:				
97.067	Homeland Security Grant Program (Note 2) (Note 3)		242,737	
Passed Through From the Kentucky Department of Homeland Security:				
Homeland Security Cluster:				
97.067	Homeland Security Grant Program (Note 2) (Note 3)	Various	6,166,349	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

CFDA	Program Title	Pass Through Number	Expenditures	Provided to Subrecipient
U. S. Department of Homeland Security (Continued)				
Passed Through From the Kentucky Department of Homeland Security (Continued):				
97.004	State Domestic Preparedness Equipment Support Program	M-03055032	24,684	
97.039	Hazardous Mitigation Grant	M-03317490	2,719	
97.053	Citizen Corps	Various	624	
97.078	Buffer Zone Protection Program (BZPP)	Various	711,272	
Total U.S. Department of Homeland Security			$ 18,062,504	$ 0
U. S. Secret Service				
Direct Programs:				
97.015	Secret Service_Training Activities		$ 14,205	$
Total U.S. Secret Service			$ 14,205	$ 0
U. S. Marshals Service				
Direct Programs:				
NA	Ky Explosive Incident Response Task Force		$ 19,195	$
NA	Fugitive Task Force		13,166	
Total U.S. Marshals Service			$ 32,361	$ 0
Other Federal Assistance				
Direct Programs:				
NA	FBI - Regional Computer Forensics Lab		$ 14,437	$
NA	Ky Criminal Enterprise Taskforce (FBI)		31,712	
Passed Through Programs:				
NA	HIDTA - Airport Interdiction Unit	I5PAPP501Z	51,747	
Total Other Federal Assistance			$ 97,896	$ 0
Total All Metro Agencies			$ 89,495,468	$ 6,816,887

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, requires a Schedule of Expenditures of Federal Awards (SEFA) showing each federal award program as identified in the Catalog of Federal Domestic Assistance (CFDA). The accompanying schedule includes all federal grant activity for the Louisville/Jefferson County Metro Government (Metro), and is presented on the modified accrual basis of accounting. Amounts are presented net of program income, if applicable.

The basic financial statements of Metro are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the SEFA may not be directly traceable to the basic financial statements in all cases.

Note 2 - Type A Programs

Type A programs for Metro are defined as any program for which total expenditures of federal awards exceeded $2,684,864 for FY 09. Metro had the following programs that met the Type A program definition for FY 09, some of which were administered by more than one (1) department. Metro identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

CFDA	Program Title		
CDBG - Entitlement and (HUD Administered) Small Cities Cluster:			
14.218	Community Development Block Grants/ Entitlement Grants	$	11,863,524
14.219	Community Development Block Grants/ Small Cities Program		57,034
14.239	HOME Investment Partnerships Program		6,498,710
Workforce Investment Cluster:			
17.258	WIA Adult Program		2,099,592
17.258	ARRA-WIA Adult Program		350
17.259	WIA Youth Activities		1,653,326
17.259	ARRA-WIA Youth Activities		227,615
17.260	WIA Dislocated Workers		7,982,636
17.260	ARRA-WIA Dislocated Workers		188,239
Highway Planning and Construction Cluster:			
20.205	Highway Planning and Construction		8,471,411

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

Note 2 - Type A Programs (Continued)

CFDA	Program Title	Expenditures
93.568	Low-Income Home Energy Assistance	6,568,242
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	10,447,237
97.067	Homeland Security Grant Program	6,409,086
	Total Type A Programs	**$ 62,467,002**

Note 3 - Programs from Multiple Funding Sources

OMB Circular A-133 Section 105 defines a recipient as “a non-federal entity that expends federal awards received directly from a federal awarding agency to carry out a federal program” and a pass-through entity as “a non-federal entity that provides a federal award to a sub-recipient to carry out a federal program.”

Federal program funds can be received directly from the federal government or passed through from another entity. Below is a list of all federal programs that are funded from more than a single funding source. They may be either (1) multiple passed through agencies, or (2) both direct and passed through. All other federal programs listed on the SEFA are from a single source, and therefore the program totals are evident in the SEFA.

CFDA	Program Title	Expenditures
97.067	**Homeland Security Grant Program:**	
	Direct	$ 242,737
	Passed through from Kentucky Department of Homeland Security	6,166,349
	Total Expenditures from Multiple Funding Sources	**$ 6,409,086**

Note 4 - Noncash Expenditures

There were no noncash expenditures of federal awards for FY 09.

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REPORTS ON INTERNAL CONTROL AND ON COMPLIANCE

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

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

Honorable Jerry E. Abramson, Mayor
Louisville Metro Council

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Louisville/Jefferson County Metro Government (Metro) as of and for the year ended June 30, 2009, which collectively comprise Metro's basic financial statements and have issued our report thereon dated December 28, 2009 where in we issued our qualified opinion on governmental activities and the Special Revenue Fund. Our report was modified to include 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 Metro's discretely presented and blended component units, as described in our report on Metro'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 as it relates to Metro's discretely presented component units. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by other auditors as it relates to Metro's blended component units.

<u>Internal Control Over Financial Reporting</u>

In planning and performing our audit, we considered Metro'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 Metro's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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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
(Continued)

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting, which are identified as findings: 09-METRO-01, 09-METRO-02, 09-METRO-03, 09-METRO-04, 09-METRO-05, 09-METRO-06, 09-METRO-07, 09-METRO-08, 09-METRO-09, 09-METRO-10, 09-METRO-11, 09-METRO-12, 09-METRO-13, 09-METRO-14, 09-METRO-15, 09-METRO-16, 09-METRO-17, 09-METRO-18, 09-METRO-19, 09-METRO-20, 09-METRO-21, 09-METRO-22, 09-METRO-23, 09-METRO-24, 09-METRO-25, 09-METRO-26, 09-METRO-27, 09-METRO-28, 09-METRO-29, 09-METRO-30, 09-METRO-31, 09-METRO-32, 09-METRO-33, 09-METRO-34, 09-METRO-35, and 09-METRO-36.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider findings 09-METRO-01, 09-METRO-02, 09-METRO-03, and 09-METRO-04 in the accompanying schedule of findings and questioned costs to be material weaknesses.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether Metro'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 also noted certain matters that we reported to management in a separate letter.

Management's responses to the findings identified in our audit are included in the accompanying schedule of financial statement findings. We did not audit their responses and, accordingly, express no opinion on them.

Embargoed Until 9am Wednesday March 24, 2010

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
(Continued)

This report is intended solely for the information and use of management, Louisville Metro Council, 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.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

December 28, 2009

Embargoed Until 9am Wednesday March 24, 2010

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Report On Compliance With Requirements Applicable To Each
Major Program And On Internal Control Over Compliance In
Accordance With OMB Circular A-133 And On The
Schedule Of Expenditures Of Federal Awards

Honorable Jerry E. Abramson, Mayor
Louisville Metro Council

Compliance

We have audited the compliance of the Louisville/Jefferson County Metro Government (Metro) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009.

Metro's major federal programs are identified in the summary of auditor's 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 Metro's management. Our responsibility is to express an opinion on Metro'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 Not-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 Metro'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 Metro's compliance with those requirements.

As described in items 09-METRO-37, 09-METRO-38, 09-METRO-39, 09-METRO-40, 09-METRO-41, 09-METRO-42, 09-METRO-43 and 09-METRO-44 in the accompanying schedule of findings and questioned costs, Metro did not comply with requirements regarding activities allowed or unallowed,

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allowable costs/cost principles, cash management, earmarking, reporting, and special tests and provisions that are applicable to the following major programs:

- Community Development Block Grant (CFDA 14.218);
- Shelter Plus Care (CFDA 14.238);
- HOME Investment Partnership Program (CFDA 14.239);
- Disaster Grants - Public Assistance (CFDA 97.036)

Compliance with such requirements is necessary, in our opinion, for Metro to comply with the requirements applicable to those programs.

In our opinion, except for the instances of noncompliance described in the preceding paragraphs, Metro complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 09-METRO-55, 09-METRO-67, 09-METRO-68, and 09-METRO-69.

Internal Control Over Compliance

The management of Metro 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 Metro's internal control over compliance with 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, 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 Metro's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal

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program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 09-METRO-37, 09-METRO-38, 09-METRO-39, 09-METRO-40, 09-METRO-41, 09-METRO-42, 09-METRO-43, 09-METRO-44, 09-METRO-45, 09-METRO-46, 09-METRO-47, 09-METRO-48, 09-METRO-49, 09-METRO-50, 09-METRO-51, 09-METRO-52, 09-METRO-53, 09-METRO-54, 09-METRO-55, 09-METRO-56, 09-METRO-57, 09-METRO-58, 09-METRO-59, 09-METRO-60, 09-METRO-61, 09-METRO-62, 09-METRO-63, 09-METRO-64, 09-METRO-65, 09-METRO-66, 09-METRO-67, 09-METRO-68, and 09-METRO-69 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 09-METRO-37, 09-METRO-38, 09-METRO-39, 09-METRO-40, 09-METRO-41, 09-METRO-42, 09-METRO-43 and 09-METRO-44 to be material weaknesses.

We also noted certain immaterial instances of noncompliance and other matters involving internal control over compliance, which we have communicated to management in a separate letter.

Management's responses to the findings identified in our audit are included in the accompanying schedule of findings and questioned costs. We did not audit their responses and, accordingly, we express no opinion on them.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Metro as of and for the year ended June 30, 2009, and have issued our report thereon dated December 28, 2009 and therein issued a qualified opinion on Metro's governmental activities and Special Revenue Fund. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Metro'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 has been subjected to the auditing procedures applied in the audit of the basic financial statements; and in our opinion, except for the effects on the schedule of expenditures of federal awards related to the qualified opinion on the Special Revenue Fund, such information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Embargoed Until 9am Wednesday March 24, 2010

This report is intended solely for the information and use of the management, Louisville Metro Council, and 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.

Sincerely,

Crit Luallen
Auditor of Public Accounts

Schedule of Expenditures of Federal Awards
December 28, 2009

Federal Compliance
March 12, 2010

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Embargoed Until 9am Wednesday March 24, 2010

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Financial Statements: We issued a qualified opinion on the governmental activities and the Special Revenue Fund of the Louisville/Jefferson County Metro Government (Metro) for the year ended June 30, 2009. We also issued an unqualified opinion on the aggregate discretely presented component units, the General Fund, the Capital Projects Fund, the Special Purpose Fund, and the aggregate remaining fund information of Metro for the year ended June 30, 2009.

Compliance: In relation to the audit of the basic financial statements of Metro, the results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control Over Financial Reporting: Our consideration of Metro's internal control over financial reporting disclosed 36 significant deficiencies. We believe four of the significant deficiencies of internal control over financial reporting to be material weaknesses.

Federal Awards

Compliance: We issued a qualified opinion on Metro's compliance with the requirements applicable to each of its major federal programs. The results of our auditing procedures disclosed twelve instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133. We believe eight of the instances of noncompliance are material.

Internal Control Over Compliance: Our consideration of Metro's internal control over compliance disclosed 33 significant deficiencies. We believe eight of the significant deficiencies are material weaknesses.

Identification of Major Programs

Major Type A Programs:

CFDA	Program Title
CDBG - Entitlement and (HUD Administered) Small Cities Cluster:	
14.218	Community Development Block Grants/ Entitlement Grants
14.219	Community Development Block Grants/ Small Cities Program
14.239	HOME Investment Partnerships Program

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Identification of Major Programs (Continued)

Major Type A Programs (Continued):

CFDA	Program Title
Workforce Investment Act (WIA) Cluster:	
17.258	WIA Adult Program
17.258	ARRA-WIA Adult Program
17.259	WIA Youth Activities
17.259	ARRA-WIA Youth Activities
17.260	WIA Dislocated Workers
17.260	ARRA-WIA Dislocated Workers
Highway Planning and Construction Cluster:	
20.205	Highway Planning and Construction
93.568	Low-Income Home Energy Assistance
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Major Type B Programs:

CFDA	Program Title
Child Nutrition Cluster:	
10.559	Summer Food Service Program for Children
14.238	Shelter Plus Care

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B programs was $2,684,864.

Auditee Risk

Metro did not qualify as a low-risk auditee.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-01: Louisville Metro Should Recognize Revenue In Accordance With Generally Accepted Accounting Principles (GAAP)

During our FY 09 audit of the Louisville Metro CAFR, we tested significant accounts receivable and deferred revenue balances. Our testing identified numerous deficiencies noted below.

- General fund deferred revenues included amounts related to:

  - Carry forwards: We identified instances in which excess revenues, or budget carry forwards, are being recorded as deferred revenues. Although the carry forwards appear to be allowable per Metro ordinance for budgetary purposes and therefore may result in restricted net assets or reserved fund balances, they do not meet the criteria for deferring the recognition of the revenue to a future period. Examples of the types of revenues deferred in this manner in the general fund included penalties and fees.
  - Donations: Our testing identified that general fund donations were being deferred if not spent by the end of the fiscal year. Upon review of supporting documentation provided by Metro for select transactions, we found no time restrictions placed on the donations to permit deferring revenue until a future period.
  - Revolving loan program: Testing indicated that loan payment receipts from a revolving loan program were deferred. Although these may be restricted net assets due to legal restrictions on the use of the funds, we were unable to determine that they met the criteria for deferring the recognition of the revenue to a future period.

- Special revenue fund deferred revenues included amounts related to:

  - Reimbursement basis grants: As noted in a separate finding related to JV activity (09-METRO-05), Metro requests reimbursement for expenses from various state agencies and federal grantors. We noted instances in which after receiving reimbursement, expenditures were then transferred out of the fund, creating the appearance that excess cash was received in the fund. This excess cash was then recorded as deferred revenue, as might be typical in grant advances. We also noted in some cases, the expenditures were simply moved between funds established to account for different grant years of the same program.
  - Errors in reimbursement requests: Testing identified instances in which errors were made in requesting reimbursement from grantors, such as expenses submitted twice for reimbursement, or a greater percentage of expenses were submitted for reimbursement than allowed by the grant agreement. We could not determine that grantors permitted the department to maintain the funds received in error, without which the department should have recorded a payable to the grantor.

Embargoed Until 9am Wednesday March 24, 2010

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-01: Louisville Metro Should Recognize Revenue In Accordance With Generally Accepted Accounting Principles (GAAP) (Continued)

- Donations: As noted in the general fund, supporting documentation indicated that unspent donations were deferred to future periods. These donations did not appear to have time restrictions from donors, and therefore did not meet the criteria for deferring the recognition of the revenue in a future period.
- Carry forwards: As noted in the general fund, we noted instances in which excesses of revenues over expenditures were deferred when they weren't spent during the year. Refer to discussion above regarding budget carry forwards.
- Revolving loan program: As noted in the general fund, we noted instances in the special revenue fund in which loan payments were deferred due to the restriction placed on the use of the funds. Refer to discussion above regarding revolving loan program revenue recognition.

- Special revenue fund accounts receivable testing indicated:

    - Certain accounts receivables were supported by accounting system reports showing an excess of expenses over revenues in federal or state grant programs. Supporting evidence did not identify that account reconciliations were performed to determine whether the excess of expenses are true accounts receivables or were book entries created by the transfer of expenses noted in the special revenue deferred revenue section above. Just as those transfers created inaccurate deferred revenue balances in the funds to which the reimbursement receipts were applied, accounts receivable balances were created in the funds to which the expenses were moved. As noted above, these expenses had already been submitted for reimbursement, and the grantor paid the reimbursement. We were unable to determine whether the transfers of expenses were due to errors in the original coding, or whether it was due to budgetary or other reasons. Also, as mentioned above, in some instances, the transfers of expenditures were between different grant years of the same federal program. Therefore, auditors were unable to assess the validity of these accounts receivable.
    - Approximately $9.7 million dollars in accounts receivables selected for testing are in dispute with the federal grantor. Since the grantor has not determined the amount of the expenses eligible for reimbursement, Metro should not recognize the revenue associated with the grants receivable.

Metro departments are in the practice of deferring funds for budgetary purposes in instances when restrictions or reservations of fund balance and/or net asset balances may be more appropriate. The effect of the errors noted above is a departure from generally accepted accounting principles (GAAP) related to deferred revenues in the general fund and special revenue fund, as well as in accounts receivable for the special revenue fund.

Embargoed Until 9am Wednesday March 24, 2010

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-01: Louisville Metro Should Recognize Revenue In Accordance With Generally Accepted Accounting Principles (GAAP) (Continued)

As a result, the auditors were unable to substantiate approximately $4.8 million dollars of deferred revenue in the general fund, $17.8 million dollars of deferred revenue in the special revenue fund, and $23.5 million in accounts receivable for the special revenue fund.

Also, it appears that Metro anticipated federal reimbursement for natural disasters that occurred during the year. Although allowable expenses would be subject to recording as an accounts receivable, amounts in dispute no longer meet the eligibility requirements for revenue recognition in the fund financial statements. The auditors presented Metro with an adjustment to decrease revenue and accounts receivable by $9.7 million dollars, and Metro passed the adjustment. Therefore, the financial statements are overstated by this amount.

GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, requires:

- Governmental fund revenues associated with government-mandated and voluntary nonexchange transactions be recognized when all applicable eligibility requirements are met and when the funds are available. If no eligibility requirements exist, then the government should recognize these revenues in the funds when available. Government-mandated nonexchange transactions include federal and state grants, and voluntary nonexchange transactions include donations.
- Revenues received through imposed nonexchange transactions, such as fines and penalties, are recognized when the government has an enforceable legal claim to the resources if no time requirements exists.

The primary focus of this finding has been on the impact of these transactions on the governmental fund financial statements, the general fund and special revenue fund. These funds are reported under the modified accrual basis of accounting, and the criteria above relates to that basis. For brevity, we have not discussed the impact of these transaction under the accrual basis of accounting, which is the basis used for reporting the government-wide financial statements.

Recommendation

We recommend Metro:

- Analyze its revenue sources to ensure it meets GAAP criteria for recognizing revenues to ensure revenues are reported in the proper period, and that revenues are only deferred when appropriate.
- Create a separate restricted donations account to segregate any donations that may have time restrictions placed on them by the donor.
- Ensure all financial managers and all departmental employees who initiate JVs and code transactions are trained on appropriate governmental GAAP revenue recognition requirements.

Embargoed Until 9am Wednesday March 24, 2010

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-01: Louisville Metro Should Recognize Revenue In Accordance With Generally Accepted Accounting Principles (GAAP) (Continued)

Recommendation (Continued)

- Implement standard year-end procedures to reconcile and analyze all balance sheet accounts, including deferred revenues and accounts receivable. These procedures at the departmental level should include analysis sufficient to ensure deferrals recorded in reimbursement basis grants are appropriate and that expenditure transfers did not result in duplicate requests for reimbursement. For compilation of the financial statements, Metro Finance should consider the use of departmental closing reports that provide information sufficient for ensuring proper accruals and deferrals of revenues.

Management's Response and Corrective Action Plan

Metro Government strives to follow all generally accepted accounting principles. While the current accounting method has been in place and audited since merger, Metro Government will incorporate the recommendation of the auditor into our year end closing process. It is important to note that this comment is related to the accounting procedure used by Metro Government and that the funding in question, whether from donations or federal/state funding sources, has been accounted for in the general ledger.

Metro OMB has had mandatory year end training for departmental business office staff for the past three years and will continue to require that training of all business managers. Metro OMB has already begun the discussion of reviewing the accruals and deferrals recorded in fiscal year 2009 to determine which entries were appropriate accounting treatments and which should have been treated as a reservations of fund balance or restricted net assets. In addition to the detailed review of accounting entries underway, Metro OMB will begin revising and updating the year end training policies to reflect the change in accounting, budgeting and grant reporting and incorporate these changes into the mandatory training sessions that are held prior to fiscal year end.

The comment above includes items selected for testing that the auditor believes are in dispute with the federal grantor. Metro has already received payment of approximately $1 million from the Federal Emergency Management Agency ("FEMA") on two of the open events related to the federally declared natural disasters. In addition, there are still several reimbursement requests outstanding that have not been adjusted by FEMA that Metro Government expects to receive payment on. The assertion that the full amount of these items is in dispute is inaccurate as reflected in the auditors comments. Amounts that have been received in full or not yet paid by the grantor due to the timing of the request are not disputed amounts.

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FINDING 09-METRO-01: Louisville Metro Should Recognize Revenue In Accordance With Generally Accepted Accounting Principles (GAAP) (Continued)

Management's Response and Corrective Action Plan (Continued)

Metro Government reviewed amounts as adjusted by FEMA, amounts submitted but not yet received, and other factors to determine that there may be approximately $4 million of receivables in dispute, less than half the amount calculated by the auditors. Metro Government will appeal any amounts adjusted by FEMA that we believe are eligible for reimbursement and anticipates that additional amounts may be received before the event is closed.

Embargoed Until 9am Wednesday March 24, 2010

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-02: Metro Department Of Corrections Should Take Immediate Steps To Improve Its Financial Management

During our audit procedures at Louisville Metro Department of Corrections (Metro Corrections), we noted multiple significant deficiencies in internal control and numerous fraud risks, which have been documented in separate findings. The combination of these significant deficiencies kept us from being able to reduce audit risk to an acceptable level, thereby limiting our audit scope over the funds administered and assets managed by this department. Examples of these weaknesses and risks include:

- Cash management weaknesses relating to the use of generic manual receipt books for significant revenue sources;
- Improper revenue recognition for certain fees;
- Lack of appropriate segregation of duties, and lack of mandatory vacation and/or cross-training in cash handling areas;
- Failure to properly tag, record, and monitor capital assets;
- Weaknesses in IT systems related to functionality or user training concerns for the Inmate Management System (IMS) in which information necessary for proper oversight and reconciliations could not be generated;
- Inconsistencies in information obtained from employees regarding control processes in place;
- Weak controls related to a federal seized property program which provided opportunities for theft; and
- Overall high fraud risk due to the lack of controls noted above and as perceived by the agency's management.

The overall environment at Metro Corrections provides the opportunity and incentive for fraud and error to occur. Furthermore, the lack of strong financial management within the department decreases the likelihood that detection of fraud and error will occur in a timely manner.

Proper internal control dictates that strong financial management exists within an organization to create a control structure that reduces the risk of material misstatements arising from error or fraud. This is especially true in high risk entities, such as Metro Corrections, due to inherently risky business operations involving cash management and other assets that are susceptible to theft.

Recommendation

We recommend Metro Corrections immediately take steps to improve its financial management of the agency through a combination of hiring individuals with strong financial management skills, working with Louisville Metro Finance on proper accounting for cash and assets, and revising its policies and procedures to improve its internal control structure to reduce opportunities and incentives for fraud and error.

The APA has made additional specific recommendations related to the weaknesses noted above in the other findings separately reported to management.

Embargoed Until 9am Wednesday March 24, 2010

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-02: Metro Department Of Corrections Should Take Immediate Steps To Improve Its Financial Management (Continued)

Recommendation (Continued)

In addition, we refer this finding to Metro Internal Audit to provide assistance to Metro Corrections in identifying and correcting control weaknesses and deficiencies in policies and procedures. Metro Internal Audit should determine whether further assistance is warranted, such as the hiring of an independent consultant, request for special examination, or referrals to Louisville Metro Police Department - Public Integrity Unit.

Management's Response and Corrective Action Plan

Metro Corrections has addressed the specific findings that lead to this comment in the subsequent responses. Metro Corrections will coordinate appropriate training for its business office staff with the Metro Office of Management and Budget ("OMB"). In addition, Metro Corrections has identified specific actions in the responses below that will be taken to mitigate the control weaknesses above. Metro Corrections will also seek the services of a Corrections consultant to assist with the review, analysis and implementation of best practices for the business office.

Metro Corrections has also addressed the weaknesses identified above related to capital assets and the federal seized property program. Metro Corrections will work with the Metro OMB to a process for the tracking and monitoring of capital assets in relation to the Louisville Metro Government's Asset Management Policy. Metro Corrections, as a result of its own internal investigation, has already taken steps to ensure that assets received related to the federal surplus property program were brought back under the physical control of Metro Corrections and that any property disposed of is handled according to the guidelines of the program. Subsequent to the fiscal year end this program has been discontinued and no additional assets will be received.

Embargoed Until 9am Wednesday March 24, 2010

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-03: Metro Department Of Corrections Should Improve Revenue Recognition And Cash Management

During our testing of revenues at the Louisville Metro Department of Corrections (Metro Corrections), we identified multiple factors indicating a high risk of error or fraud within the department. Many of these factors are presented in other findings, but include lack of segregation of duties, and lack of reconciliation of the Inmate Management System (IMS) used by the agency. The auditors performed a reasonableness test on one fee, the inmate booking fee, because the fee is a flat fee charged to all inmates and could be reasonably estimated given the known number of inmates booked into the system during the fiscal year. The test resulted in estimated booking fee revenues of $1,131,000. The amount recorded in Metro's financial accounting system, LeAP, is $370,066, which is a variance of $760,934 or 67% of the estimated revenue that should have been recorded by the department for this fee type.

This test points to three weaknesses:

- There is a failure to properly record in LeAP the revenue earned through the collection of fees, which should be at the point the booking fees are assessed, not only when cash is collected;
- There is a severely low collection rate for booking fees;
- Due to other weaknesses noted over controls for receipts and deposits and the lack of reconciliation between LeAP, bank statements, and the Inmate Management System (IMS) noted in separate findings, there is an increased potential for fraud.

Earlier discussions with Metro Corrections management and employees indicated that there are collection problems, which is not unreasonable given the type of operations handled by this department. However, they also indicate that there are no formal collection attempts as recommended by state statute. The department pointed to the large number of individuals processed in the system each year, and that formal collections for this population would result in low response. Also, given the variance noted above, there is an extraordinarily high level of nonpayment, indicating that the variance could be due to factors other than collection.

Furthermore, the variance also suggests there is a lack of understanding about when revenues should be recognized, regardless of collections. The auditors were unable to perform this type of testing with other Metro Corrections fee accounts because the revenues are not across-the-board, flat rates fees, and therefore we were unable to determine the total of misstatements in these accounts. However, based on this failure to properly record revenue earned, it is reasonable to assume that errors exist in the other inmate fee categories.

Based on the error noted, booking fees alone is misstated approximately $760,934. However, the auditors did not submit an adjustment to Louisville Metro Finance Department due to the likelihood of errors noted in other accounts, the high fraud risk involved in these accounts, and due to the scope limitation auditors had on their ability to assess those misstatements. Also, the auditor did not have sufficient information to determine a reasonable estimate for an allowance for doubtful accounts in the government-wide financial statements.

Embargoed Until 9am Wednesday March 24, 2010

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-03: Metro Department Of Corrections Should Improve Revenue Recognition And Cash Management (Continued)

Proper internal control dictates that procedures exist to properly record revenues earned, and that some type of reasonable collection procedures exist taking into consideration the business environment.

Furthermore, GAAP requires that revenue be recognized in the fund financial statements when it is both earned and available. If funds are not expected to be collected within a short period of time after the end of the government's fiscal year, then the funds should be deferred under modified accrual basis of accounting. Under the full accrual basis of accounting for the government-wide financial statements, revenues should be recognized when earned regardless of the timing of collections.

KRS 441.265 states,

> … (6) Payment of any required fees may be automatically deducted from the prisoner's property or canteen account. If the prisoner has no funds in his account, a deduction may be made creating a negative balance. If funds become available or if the prisoner reenters the jail at a later date, the fees may be deducted from the prisoner's property or canteen account.
>
> (7) Prior to the prisoner's release, the jailer or his designee may work with the confined prisoner to create a reimbursement plan to be implemented upon the prisoner's release. At the end of the prisoner's incarceration, the prisoner shall be presented with a billing statement produced by the jailer or designee. After the prisoner's release, the jailer or his designee may, after negotiation with the prisoner, release the prisoner from all or part of the prisoner's repayment obligation if the jailer believes that the prisoner will be unable to pay the full amount due.

Recommendation

We recommend Metro Corrections:

- Work with Metro Finance to develop procedures to properly record fees earned;
- Consider establishing collection procedures for uncollected fees, such as establishing fee payment arrangements with individuals prior to leaving the facility as recommended in KRS 441.265 and applying funds of repeat reoffenders to their old balances first; and
- Improve controls overall for cash and deposits, taking into consideration recommendations made in other findings, to reduce risks and opportunities for fraud and error.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-03: Metro Department Of Corrections Should Improve Revenue Recognition And Cash Management (Continued)

Management's Response and Corrective Action Plan

Metro Corrections recognizes that there is a low collection rate for booking fees. Metro Corrections currently collects about 30% of booking fees from inmates. Per a survey Metro Corrections conducted in March 2009 with various Kentucky counties, that collection rate is about average for Kentucky counties as well as the national average. In some instance, an inmate is booked through Metro Corrections, but may not be charged a booking fee or the booking fee is waived depending on the arrest type (courtesy hold for another jurisdiction, transfer in of state inmates for Jefferson County court dates, etc.) or due to the fact that an inmate is considered indigent.

Metro Corrections currently has a policy in place (Policy 01-2.08) that specifically addresses the collection of booking fees at the time of incarceration or subsequent arrest if the inmate has an unpaid booking fee. Due to system limitations in the IMS program, the negative balance may not be readily available if and when an inmate is booked for a subsequent arrest as inmates are assigned a new booking number upon each arrest. Metro Corrections is working to identify a system solution to improve the identification of inmates with outstanding booking fees. In addition, Metro Corrections is investigating possible improvements to the Booking Fees policy as outlined in the recommendation above to improve collection rates.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-04: Metro Department Of Corrections Should Strengthen Internal Controls Over Inmate Receipts

Louisville Metro Department of Corrections (Metro Corrections) uses Inmate Management System (IMS) software to keep track of each inmate's account balance. When the inmate is booked, any cash in their possession is taken and deposited in an account from which any fees charged to them while incarcerated are deducted. Examples of these charges include the booking fee, medical fees, commissary purchases, and damages to property or equipment. The auditors noted through inquiry with Metro Corrections staff that inmates are not provided a detailed receipt of charges applied against their accounts upon leaving the facility. They are given a check to pay out any remaining funds in their account, but it is not unusual for the account to have a negative balance due to the account having more charges assessed to it than funds available to cover them. Also, there is a lack of control over charges made to the inmate's account. Inmates sign for commissary orders, but are not required to sign acknowledgements for other fees assessed to them.

Furthermore, upon requesting the reconciliation of the inmate account, numerous deficiencies were noted:

- Whereas Metro Corrections reconciles the bank statement for the inmate funds to Metro's financial accounting system, LeAP, it does not reconcile either the bank accounts or LeAP to IMS, which is the original source of entry. This lack of reconciliation makes it difficult for Metro Corrections to identify the amount of revenues earned, and that all funds collected have been properly accounted for.
- Unclaimed inmate funds are not being reviewed to determine whether any amount should be escheated to the Kentucky State Treasurer.
- Repeat offenders may have more than one account in IMS. Upon booking an inmate for a subsequent violation, the Metro Corrections employee is not always able to determine that a previous account exists, and therefore a new account may be created. Therefore, if unpaid fees exist from a previous incarceration, those fees may not be recouped in the subsequent stay.
- The IMS system does not get technical maintenance support from Metro Department of Information Systems, but is under a separate maintenance contract. Upon requesting certain audit information to determine whether reconciliations could be performed under the existing system, Metro Corrections employees were unsure of the system's capabilities and deferred questions to the vendor. Ultimately, it was determined that the system was limited in its capability of providing adequate reports to reconcile inmate accounts, or identify revenues earned versus cash collected.

Metro Corrections employees have indicated that information needed to properly reconcile inmate accounts cannot be obtained from IMS. The failure to adequately reconcile accounts, the lack of consistent policies and procedures, and inadequate employee training appear to be the reasons for the department's failure to provide receipts to inmates exiting the system, failure to require inmate acknowledgement of fees assessed on their account, failure of Metro Corrections to escheat unclaimed funds to the state, and for creating multiple inmate accounts for the same individuals.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-04: Metro Department Of Corrections Should Strengthen Internal Controls Over Inmate Receipts (Continued)

The failure to properly reconcile the inmate accounts creates:

- an increased opportunity for fraud;
- errors in the recognizing and recording revenues;
- an inability for proper cash management, and
- a potential noncompliance for failure to escheat unclaimed amounts to the Kentucky State Treasurer.

Furthermore, the lack of detailed knowledge of the IMS system by financial managers within the department impairs the employees' ability to respond to the risks noted above, or to assess whether the functionality of the system or the maintenance vendor is providing the department with the tools and resources it needs.

Proper internal controls dictate that procedures exist to reduce risk of error and fraud to an acceptably low level. These controls should be sufficient to permit the department to reconcile its inmate accounts, provide receipts when fees are collected from individuals and maintain documentation of these controls.

Also, automated systems should be adequate to provide sufficient level of detail to permit the department's ability to monitor and account for its activities. It is important for financial managers to have a detailed working knowledge of the system to address changes in operations or new risks, to evaluate the usefulness of the system, and to properly monitor contracts with maintenance providers to ensure the department is receiving the support it needs without paying for services it does not need.

KRS 393.020 states,

> If any property having a situs in this state has been devised or bequeathed to any person and is not claimed by that person or by his heirs, distributees, or devisees within three (3) years after the death of the testator, or if the owner of any property having a situs in this state dies without heirs or distributees entitled to it and without disposing of it by will, it shall vest in the state, subject to all legal and equitable demands. Any property abandoned by the owner, except a perfect title to a corporeal hereditament, shall vest in the state, subject to all legal and equitable demands. Any property that vests in the state under this section shall be liquidated, and the proceeds, less costs, fees, and expenses incidental to all legal proceedings of the liquidation shall be paid to the department.

KRS 441.265 states,

> … (6) Payment of any required fees may be automatically deducted from the prisoner's property or canteen account. If the prisoner has no funds in his account, a deduction may be made creating a negative balance. If funds become available or if the prisoner reenters the jail at a later date, the fees may be deducted from the prisoner's property or canteen account. (7) Prior to the prisoner's release, the jailer or his designee may work with the

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-04: Metro Department Of Corrections Should Strengthen Internal Controls Over Inmate Receipts (Continued)

confined prisoner to create a reimbursement plan to be implemented upon the prisoner's release. At the end of the prisoner's incarceration, the prisoner shall be presented with a billing statement produced by the jailer or designee. After the prisoner's release, the jailer or his designee may, after negotiation with the prisoner, release the prisoner from all or part of the prisoner's repayment obligation if the jailer believes that the prisoner will be unable to pay the full amount due.

Recommendation

We recommend Metro Corrections:

- Provide all inmates with a receipt of his/her account activity, including pay outs when remaining funds exist or details of excess charges remaining on the account. Metro Corrections should maintain signed/initialed receipts given to inmates, or include in files of inmates transferring to other facilities.
- Require inmates to sign an acknowledgement for all charges assessed to their account. When an inmate is incapacitated to the point that acknowledgement cannot be obtained or that it would be useless, the acknowledgment should be noted as such and provided to the inmate at a later date or upon discharge.
- Immediately implement procedures to reconcile IMS inmate accounts to both LeAP and the bank account, and based on these reconciliations determine what funds should be escheated to the Kentucky State Treasurer, and whether revenue adjustments are needed in LeAP.
- Strengthen policies and train employees on intake and exit procedures to ensure employees have sufficient understanding of the system to reduce duplicate accounts and implement the controls noted above.
- Analyze the functions of the IMS system to determine whether the data needed for the improvements noted above can be obtained. If not, the department should consider alternative ways to obtain the information necessary to improve its processes, including consideration of whether a new system is needed.

Management's Response and Corrective Action Plan

Metro Corrections can and will begin issuing a receipt to all inmates upon their release from the Corrections facility. A copy of the release receipt will be provided to the inmate and a signed copy of the receipts will be maintained at Corrections.

Metro Corrections is in compliance with KRS 441.265 which states that "Payment of any required fees may be automatically deducted from the prisoner's property or canteen account." Metro Corrections considers booking fees a required fee and therefore does not

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FINDING 2009-METRO-04: Metro Department Of Corrections Should Strengthen Internal Controls Over Inmate Receipts (Continued)

Management's Response and Corrective Action Plan (Continued)

require a signature for that fee. Additionally, Metro Corrections requires an inmate's signature for any items purchased from the inmate commissary. Metro Corrections will review the feasibility of having inmates sign for charges not related to booking fees or commissary purchases.

The Metro Corrections business office is currently working with the Metro OMB to identify and implement procedures to reconcile the inmate account balances per IMS to the amounts held in the Inmate Fund in LeAP. Currently, inmate funds are recorded using a booking number and a CIN number. An inmate will receive a CIN number upon their first arrest and that number is used to track that individual upon subsequent arrests and incarcerations. While an inmate should only have one CIN number, each booking of an inmate results in a new booking number. Metro Corrections technology staff and business office are working to "match" CIN numbers in the system to booking numbers so that duplicated accounts are removed and funds can be recouped from inmates who have negative account balances.

The Metro Corrections business office will contact the Jefferson County Attorney's Office regarding guidance on the escheatment of funds to the Kentucky State Treasurer.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-05: Metro Finance Should Improve Internal Controls Related To Journal Voucher (JV) Processing

The prior year Metro Housing audit noted significant high risk JV activity indicating excessive transfers of expenditures that made it difficult for auditors to determine the appropriateness of the transfers. During the FY 09 audit, this risk was addressed by analyzing and testing JV activity government-wide.

In performing our testing procedures, we noted the following deficiencies in our sample of 26 JV documents:

- Eight instances in which supporting documentation was not sufficient for reviewers to assess the accuracy of the transaction.
- Nine instances in which the transaction appeared to be a result of an inaccurate process that could result in financial reporting errors. Upon noting this in the JV test of transactions, the auditor analyzed the JV detail for other like transactions, and noted numerous other similar concerns.
    - The auditor noted cases in which accounts payable accruals are recorded without a review of underlying dates of service, etc.
    - The auditor noted that expenses were transferred between funds due to an "excess of expenses over revenues," without supporting detail to determine whether the expenses were allowable expenses of the fund to which they were being transferred. Moving expenses out instead of transferring cash in to cover budgetary shortfalls, creates the potential for:
        a) unallowable expenditures to be moved into restricted funds or programs,
        b) false deferred revenues due to the moving of expenditures out of a special revenue fund that has already had federal or state reimbursement requested,
        c) false accounts receivable due to moving expenses into special revenue funds that have yet to compile reimbursement requests,
        d) the potential for requesting reimbursements on the same expenditures for different programs, and
        e) inaccurate information for budgetary evaluation and planning purposes, since moving expenses under or over reports the actual cost of operations within those funds.
- Metro Finance sets up a separate fund for each grant year of some federal programs. The auditor noted activity in numerous old grant funds, some of which are past the grant's period of availability. Also, the practice of creating new grant funds for each grant year also creates reporting errors. This occurs when transfers for budgetary purposes between these funds create unintended accounts receivable or deferred revenues balances that get carried forward to the financial statements, even though it is really just activity for different grant years of the same program.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-05: Metro Finance Should Improve Internal Controls Related To Journal Voucher (JV) Processing (Continued)

During the auditor's general analysis procedures, we noted a very high level of JV activity overall. Metro departments processed approximately 12,885 JVs, accounting for 174,166 lines of detail during the year. With this level of processing, detection of errors is drastically impaired.

One reason for the high level of JVs transactions is due to Metro's use of JVs as routine processing documents, such as recording cash receipts. Cash receipts for some departments are initially charged to revenue clearing accounts, and then the department creates a JV to move the revenue from the clearing account to the appropriate revenue account. Because cash receipts are not recorded as separately identifiable document types, they cannot be distinguished between non-routine JVs. Also, departments are not restricted from including activity related to routine revenue processing on the same JV as non-routine transactions, such as error corrections or transfers. In addition to receipt processing, the JV amount above includes other routine processes, such as budget revisions and payroll interface lines. According to information obtained from Metro Finance, the exclusion of these routine transactions brings the number of actual JVs processed to approximately 8,600.

The high volume of JVs appears to be due to a lack of understanding regarding how transactions impact financial reporting. Weaknesses identified above indicate that Metro departments transfer expenditures to counteract budgetary shortfalls in a given fund. Short-term cash borrowings between funds would be easier to track and, they would likely result in less risk~~s~~ of noncompliance with grant agreements or other fund restrictions and less risk of inflated accounts receivable and deferred revenues or other GAAP departures. Also, this would provide more accurate budget to actual information for budgetary planning purposes.

Finally, the use of separate accounting funds for each grant year of a program leads to confusion, and increases the risk of error. If this methodology is used for the convenience of employees to monitor differing compliance requirements from one year to the next, that further supports the risk associated with transferring of expenditures between these funds.

Governments should have appropriate policies and procedures in place to promote sound financial management, accurate financial reporting, and provide a sound basis for compliance with accounting standards, grants, and other agreements. This entails having systems and procedures to provide employees and financial managers the ability to assess the risk of non-routine transactions from normal operating activity and to ensure that financial transactions are processed in such a way to support accurate financial reporting that complies with generally accepted accounting principles (GAAP) and grantor reporting requirements. Strong internal controls dictate that all employees and financial managers responsible for financial reporting have adequate skills and training to assess the impact of financial transactions from both financial and budgetary perspectives.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-05: Metro Finance Should Improve Internal Controls Related To Journal Voucher (JV) Processing (Continued)

Recommendation

We recommend Metro Finance and Metro Grants Management:

- Review the procedures for recording cash receipts and other routine processes recorded on JVs to identify a mechanism for segregating routine processing from non-routine transactions.
- Update procedures to require valid support for the nature of JV transactions sufficient to assist reviewers in identifying errors, not only to support the amounts on the JV.
- Consider implementing additional year-end closing procedures to obtain information from departments that would assist in better assessments of year-end accruals, interfund activity, etc.
- Establish policies to limit the use of routine expenditure transfers between funds;
- Train departmental and central financial managers and employees involved with financial reporting on establishing appropriate accounting policies and internal controls to support accurate and compliant reporting. This training should cover policies that have led to common errors, such as appropriate timekeeping to avoid payroll transfers, budgetary vs. GAAP accounting, and revenue recognition requirements; and
- Eliminate, or at a minimum inactivate, old funds in the general ledger that are no longer necessary and reasonable for proper financial reporting, and that create confusion for employees and financial managers.

Management's Response and Corrective Action Plan

Metro Government, respectfully, takes issue with several of the items in the comment and recommendation above. The number of journal vouchers referenced above includes posting transactions from Metro's subsidiary ledgers to the general ledger as well as journals posted to budget accounts in LeAP. There are currently identifying features on all types of routine journal vouchers referenced above (e.g. transactions posted from the accounts payable subsidiary ledger, transactions posted to record daily cash transactions). In addition, Metro Government's Journal Voucher policy does require that all journals vouchers submitted for processing by departments include appropriate supporting documentation. Any journals submitted without supporting documentation are not processed and are returned to the department for additional information.

Finally, Metro Government does have yearend closing procedures in place. These procedures are reviewed and updated annually. If the Metro OMB identifies areas that need additional discussion during the year, the procedures are updated to reflect the new requirements.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-05: Metro Finance Should Improve Internal Controls Related To Journal Voucher (JV) Processing (Continued)

Management's Response and Corrective Action Plan (Continued)

Metro Government also takes issue with the idea that there is a "limit" to the amount of journal vouchers processed. There is not a correct number of journal vouchers that can be processed, journal vouchers need to be processed until the books accurately reflect the transactions of the entity. Metro Government continually works to record accurate information in the general ledger and will record entries as needed to reflect the most accurate information possible.

Metro Government has historically tracked grant funding for two Housing and Urban Development programs, Community Development Block Grants and HOME, by using a separate accounting fund for each year of funding. All other federal grants are each reported in their own accounting fund. Metro Government recognizes that improvements can be made in the tracking of these funds and is currently reviewing the grant funds and grant accounting policies to ensure all funds are tracked properly and used in accordance with the grant program requirements.

Auditor's Reply

As noted in the finding, the exclusion of the routine transactions mentioned in Metro's response still leaves approximately 8,600 JVs processed. The finding doesn't suggest that there is a limit to the number of JVs the government should process, but is intended to point out that the volume of JVs processed is likely a contributing factor in the numerous errors and control deficiencies noted during the audit. JV transactions are typically non-routine transactions and should be given more oversight by financial managers. The JV volume itself suggests that it would be difficult and time consuming to properly scrutinize these high-risk transactions. Therefore the auditors reiterate the recommendation that Metro Finance review its procedures to look for ways to identify the riskiest transactions and improve its oversight of them.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-06: Metro Finance Should Improve Internal Controls Over Bank Reconciliations

During the review of internal controls over cash, auditors reviewed three months of bank reconciliations to ensure they were being completed accurately and in a timely manner. Of the 96 reconciliations completed in that time span, we noted that 86 of them were either missing, not dated, and/or not completed within 10 business days of the following month as stated in Metro Finance's Cash Management Policies.

Metro's bank accounts are not being reconciled timely to detect discrepancies between the bank and recorded transactions in Metro's financial accounting system, LeAP. Delays in reviewing bank accounts leave Metro susceptible to errors and decrease the potential for detection of errors or fraud.

Metro Finance Cash Management Policy - Cash Receipts and Reconciliation section states, "For departments that are responsible for reconciling their bank account, the appropriate departmental staff member must prepare bank reconciliations monthly for the entire month of activity. The reconciliation will be submitted to the designated account reviewer by the 10th business day of the following month."

Recommendation

We recommend Metro Finance implement procedures to ensure all bank accounts are reconciled monthly and bank reconciliations are completed in a timely manner.

Management's Response and Corrective Action Plan

Metro Government has a Cash Receipts and Reconciliation policy in place that is followed. During the period under audit, the Accounting Supervisor was on medical leave for three months. At this time the Administrator of Accounting and Finance Accountant II were performing the Supervisors duties to ensure continuity of controls. The Administrator of Accounting and Finance Accountant II both resigned from their posts at Metro Government shortly before the return of the Accounting Supervisor from medical leave. Upon the Supervisors return, it was found that reconciliations either had not been completed or were not completed timely. The Supervisor worked with accounting staff to ensure that all reconciliations were completed. While the reconciliations may not have been completed timely, they were completed and reviewed appropriately.

Metro Government will work with the appropriate staff to ensure that all reconciliations are completed timely and that documentation of the date of preparation and review are recorded on the reconciliation.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-07: Metro Finance Should Improve Cash Management Procedures

The Metro Finance Cash Management Division receives cash deposits from various departments within the government. These transactions are recorded through a cashier system named Store Operations POS (LeAP Cashier), and then deposited by Metro Finance Cash Management staff. We noted several weaknesses regarding the handling of cash receipts:

- Lack of adequate segregation of duties existed between the receiving and recording of cash collections, balancing of daily cash receipts to cash recordings, performance of the daily count of the cash drawer, preparation of the deposits, and voiding of transactions. One staff member has the ability to receive cash receipts, input the receipt information, prepare receipt reports, perform daily count and reconciliation of the cash drawer, preparation of deposit, access to the safe, and the ability to void transactions.
- Prepared deposits were not stored in the safe at all times. Auditors observed a previously prepared deposit held in the cashier's drawer.
- Cash counting area was not secure or free of interruptions. The Metro Cash Management cashier performed cash drawer closing procedures in the reception area, which is open to other individuals, and is an area used by other employees to enter and exit their offices.
- The cash drawer includes a large change fund. The cashier maintains a balance of $500 in the drawer, although no sales occur from this drawer and departments bring departmental deposits complete and intact, requiring no change.
- When the daily cash count is performed for end-of-day closing procedures, the cashier does not document the cash by denomination.
- Receipts are not batched daily with the beginning and ending numbers documented, including any voided receipts.
- Based on initial inquiry, auditors were told surprise cash counts are not performed. However, later inquiry indicated that surprised cash counts are performed by a Metro Finance Cash Management employee and also by the Controller but are not documented. This indicates multiple individuals may access the cash drawer without documentation of date, time, or purpose.
- The cash drawer is not re-counted by the cashier's supervisor or other Metro Finance Cash Management employee at the end of the day as part of the routine closing process.
- Checks electronically transmitted to the bank are not reviewed by the cashier's supervisor or other Metro Finance Cash Management employee. Furthermore, the cashier has the ability to modify the dollar amount of checks transmitted to the bank when the check scanner does not automatically pick up the dollar amount. This manually entered check amount is not flagged on final statements to permit review or inspection by supervisors, nor are supervisors required to verify the manual adjustment.
- Back-up for the cashiering function is performed by another Metro Finance Cash Management staff member. Although both have separate login Ids for the LeAP Cashier system, they share the same cash drawer. Furthermore, the back-up employee is the same person responsible for verification of the deposits, and was identified as the Metro Finance Cash Management employee that performs surprise cash counts without documentation.

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FINDING 09-METRO-07: Metro Finance Should Improve Cash Management Procedures (Continued)

The weaknesses noted above were due to the lack of management emphasis on implementation and enforcement of consistent policies and procedures and effective controls to ensure that agency assets are safeguarded. Furthermore, there appears to be a lack of understanding of the risks associated with lax controls over the cashiering function.

Without the implementation of effective internal controls, management is not addressing the risk inherently associated with cash. The lack of effective controls increase the risk that errors or fraud are detected late or possibly remain undetected.

Sound internal controls promote good business practices providing reasonable assurance that assets are safeguarded, financial records and reports are accurate, policies and procedures are adhered to, and effective and efficient operations are in place. In addition, good internal controls will help to ensure that cash related transactions are fully documented and provide an audit trail and trace properly between agency records and the corresponding bank deposit.

Recommendation

Based on the control weaknesses noted above, we recommend the following:

- Supervisors should verify cash deposits, voided transactions, and cash overages/shortage. Evidence of this verification should be maintained in the form of a sign off on deposit slips, voids, and checkout sheets.
- Prior authorization from a supervisor/manager should be obtained for voided transactions.
- All copies of voided receipts should be maintained with documentation of the reason for the void.
- Verification procedures should be performed by an employee with no cash handling responsibilities to ensure that amounts deposited equals receipts per LeAP Cashier. When small amounts of cash are held due to Metro's policy permitting $1,000 on hand prior to deposit, the deposit should still be prepared and included on a separate deposit ticket for that date to permit reconciliation to the daily receipts.
- Cashier function should be reviewed and incompatible duties should be separated. In the event that staffing limits proper segregation of duties, appropriate compensating controls should be implemented to ensure funds are properly protected.
- A daily cash checkout sheet should be maintained to track the total amounts for each denomination in addition to total of all checks scanned. The employee preparing the checkout sheet should sign the form, and the checkout sheet should be reviewed and signed by the supervisor verifying the amounts.
- The LeAP Cashier reports should include the range of receipt numbers processed for the day, with the duplicates maintained with the daily work. This documentation should

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-07: Metro Finance Should Improve Cash Management Procedures (Continued)

Recommendation (Continued)

indicate the beginning and ending receipts number, as well as any voided receipt numbers. There should be verification that the ending receipt number corresponds with the beginning receipt number for the following day. The LeAP Cashier reports should have a control number to account for all printed copies, with erroneous copies printed for balancing attached.

- The cash drawer should be recounted by a supervisor at the end of the day. Also, the deposit should be recalculated and checks compared to the transmitted total. The supervisor should document the review by initialing the LeAP Cashier report, daily checkout sheets, and deposit slips.
- Metro Finance should discuss with the bank whether there are mechanisms available for denoting manually input check amounts.
- Surprise cash counts should be performed periodically at various cashiering locations in Metro, and documented. Documentation should include who performed the cash count, should follow the daily checkout sheet to document total checks and cash by denomination, and ensure the total sales recorded reconcile to amounts on hand. Surprise cash counts should always be performed with a witness, and not performed by individuals with routine operating access to the drawer.
- The change drawer be reduced and/or eliminated since it is used only for departmental deposits and not customer sales. Metro Finance may consider implementing a petty cash fund for non-transaction cash services, such as providing change. Petty cash procedures should be established to ensure petty cash stays balanced and is routinely reconciled.

Management's Response and Corrective Action Plan

Metro Government recognizes the importance of controls over cash and cash receipts and has documented procedures used by all Metro Government departments outlining the expectation of controls over cash and cash receipts. The Cashier function of the Metro OMB receives and deposits funds for its own department and other Metro Departments that do not have a separate bank account. Metro Government believes that while there are improvements to be made in the segregation of duties of the Cashier function, cash and cash receipts received by the Cashier were maintained in a secure location and cash and cash receipts were properly processed and deposited by the Metro OMB.

Due to changes in Metro Government's policy regarding checks cashed by the Metro OMB Cashier, it has been determined that there is no longer a need for a cash drawer balance to be maintained by the Cashier. The Cashier will still be receiving cash from deposits and the following changes to policy will be implemented to ensure cash is securely held:

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-07: Metro Finance Should Improve Cash Management Procedures (Continued)

Management's Response and Corrective Action Plan (Continued)

Cash received each day will be counted by the Cashier and verified by the Cash Management Coordinator. Both the Cashier and Cash Management Coordinator will sign the cash count.

The cash count will include the number of each denomination as well as the total of each denomination. Surprise cash counts will be conducted as determined by the management of the Metro OMB.

Daily LeAP Cashier Reports will include the beginning and ending number of all receipts issued for the day and duplicates maintained with this work. Voided receipts will be processed by the Cash Management Coordinator and will be maintained in the daily cash receipts documentation. In addition, system security has been changed so that the Cashier no longer has the ability to enter voided transactions.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-08: Metro Purchasing Should Improve Internal Controls Over Contracts And Update Policies And Procedures To Better Reflect Current Practices

During the FY 2009 Louisville Metro CAFR audit, our test of contract files identified the following weaknesses for vendor contract files, professional service contract files, and for Metro Purchasing policies and procedures:

Vendor Contract Files

- One contract file contained correspondence indicating that the contract was awarded to one bidder without review of other proposals, and did not contain a bid evaluation sheet from the department. The correspondence indicated that two other submitted proposals were not graded because they did not address all parts of the Request for Proposal (RFP). However, during the proposal period, the department indicated in formal response to proposers that partial submissions were acceptable. Therefore, the department had an obligation to grade partial submissions for the sections they addressed. Also, correspondence indicated that the bidder had the lowest overall bid, but since the invitation to bid did not indicate the award was based on lowest price, this criterion alone is not sufficient for the contract award.
- Two contract files did not have the Human Relations Commission response documented in the contract bid file as required by Metro Purchasing for bids issued after 2008. This documentation ensures Human Relations Commission records have been checked to ensure that potential sub-contracting is disclosed and that females and minorities are given equal opportunity to sub-contract with the vendor.
- Two contract files did not have the Revenue Commission response documented in the contract bid file, as required by Metro Purchasing for bids issued after 2008. This documentation ensures all vendors doing business with Louisville Metro pays taxes and is in good standing by paying Louisville Metro local taxes timely.
- One contract file did not have a Purchasing Evaluation Sheet, which indicates the Metro Purchasing buyer's review of the bid information and the Purchasing Director's signature approving the bid awarded.
- One contract file did not include a written findings form, as required by Metro Purchasing to document why a sole source, emergency or professional service contract is needed.
- One contract file could not be located by Metro Purchasing staff.

Professional Service Contract Files

- All nine professional services contract files tested lacked documented evidence of reviews performed by the Accounts Payable staff.
- Three professional service contract files did not have the vendor's Revenue Commission number identified, or indication that the vendor was in good standing with the Revenue Commission.
- One professional service contract file was missing both a written findings form and contract data sheet.
- One professional service contract file included contract data sheet that did not have account coding provided, and the written findings form did not indicate why a professional service contract was used.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-08: Metro Purchasing Should Improve Internal Controls Over Contracts And Update Policies And Procedures To Better Reflect Current Practices (Continued)

Metro Purchasing Policies and Procedures

During inquiry with Metro Purchasing and Metro Account Payable staff, the auditor was informed that purchasing policies are under review and will be updated. The following items identify differences between the existing written policies and current practice:

- Metro purchasing policies indicate a written findings form is required when an agency has a request for a sole source vendor determination. Metro Purchasing is no longer requiring agencies to submit this form for a sole source request as long as they can provide support indicating why the vendor should be deemed a sole source provider.
- Metro purchasing policies indicate that any contract over $100,000 must be sent to the Metro Council for review. However, Metro Purchasing does not submit contracts for the Metro Council's review, except for professional service contracts over $10,000, which may exclude large construction contracts or other information that may be pertinent to Metro Council's function.
- Metro Purchasing currently requires all buyers to include a documented response from the Human Relations Commission and Revenue Commission on all vendors who have been awarded a bid, before the bid is to be released. This documentation was not required on bids issued prior to 2008. Testing indicated 10 files were missing the documentation, but only 2 of those bids were issued after 2008 as indicated in the test exceptions above since Metro Purchasing policy was not in effect.

The weaknesses noted above can be attributed to oversight during the review process combined with buying departments' failure to follow Metro purchasing policies. Due to the variances between existing written purchasing policies and practice, there may be some confusion among Metro departments and Metro Purchasing staff who perform the contract file reviews.

Metro has adopted by executive order the Model Procurement Code detailed in KRS 45A.345-.460. Therefore, the failure to perform accurate and thorough reviews to detect violations of purchasing policies may lead to contract awards that violate state statute and Metro policies.

Proper internal controls dictate that documentation to support the procurement of services and commodities should be adequate to reflect that contracts are awarded fairly and in compliance with policy and regulations.

Also, proper controls dictate that written purchasing policies and procedures are up-to-date to serve as guidance for buyers, reviewers, management, as well as vendors and contractors.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-08: Metro Purchasing Should Improve Internal Controls Over Contracts And Update Policies And Procedures To Better Reflect Current Practices (Continued)

Recommendation

We recommend Metro Purchasing:

- Update its purchasing policies to reflect current practices and clarify required documentation.
- Create a checklist for the Metro Purchasing and Metro Accounts Payable staff to use in reviewing contract documentation.
- Ensure reviews of all contract documentation are well documented to indicate the appropriate documents are on file to support the contract awarded, and to ensure all policies and regulations have been followed.
- Conduct periodic training of all Metro departmental staff with purchasing responsibilities on policies and procedures, especially when policies have changed.
- Ensure purchasing policies reviewed annually to ensure consistency with requirements contained in the Metro budget ordinance.

Management's Response and Corrective Action Plan

Metro Government is currently in the process of updating the policies and procedures related to Purchasing. Several of the items included in the finding above are being addressed in the policy revisions currently underway. However, several items included in this finding were not in violation of Metro Governments policy as indicated above and are incorrect as stated in the finding above.

The auditors finding related to the lack of documentation from the Revenue Commission and Human Relations Commission is inaccurate. Metro Government's current policy does not dictate that printed copies of this verification. Metro Purchasing staff indicated that the required compliance verifications related to the Revenue Commission were made by indicating that on the file. Upon further review by Metro Purchasing, it was determined that while Metro's policy does not require to maintain printed copies of the Human Relations Commission verification, the verifications in question were actually found to be in the bid folders. One was maintained electronically and the other was attached to the Bid Evaluation Form. Metro Government is currently in the process of ensuring that all Human Relations Commission and Revenue Commission verifications be printed and retained in the contract file through the policy revisions currently underway.

As stated above, Metro Government is currently in the process of revising and updating the Purchasing Policies and Procedures to reflect the current process that is in place in Purchasing and to remove outdated items, such as the requirement for a written findings form for sole source contracts, from the policy.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-08: Metro Purchasing Should Improve Internal Controls Over Contracts And Update Policies And Procedures To Better Reflect Current Practices (Continued)

Management's Response and Corrective Action Plan (Continued)

The Metro Government's Accounts Payable division is in the process of developing a checklist for all Professional Service Contracts. This checklist will document the review performed by Accounts Payable as well as verification of the Revenue Commission number of the vendor. It is important for the auditor to note that not all vendors may have Revenue Commission numbers. Vendors that are non-profits with no employees are not required to have a Revenue Commission number.

The Metro OMB will continue to provide training to all Metro departments as needed.

Auditor's Reply

The auditor was informed that verification from the Revenue Commission for bids issued after 2008 should be evidenced by either a hard copy of the verifications in the bid file, or an electronic copy maintained by Metro Purchasing staff. The instances noted in the finding for lack of verifications from the Revenue Commission and the Human Relations Commission were all for bids issued after 2008. During the audit, neither hard copies nor electronic copies of the verifications were located for the bid files noted.

Also, the auditor is aware that not-for-profit organizations with no employees are not required to have a Revenue Commission number. However, we recommend in those cases, the contract file contain some notation of the inapplicability of the Revenue Commission number. The checklist in development by Metro Accounts Payable may be a useful tool for this documentation.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-09: Metro Should Comply With KRS 45A.365 In Awarding Bids

During our audit of Metro purchasing policies and procedures, we noted that during FY 2009 Metro awarded contracts for certain services to multiple vendors to create a vendor pool, as opposed to awarding contracts to either the lowest bid price or lowest evaluated bid price as required by KRS 45A.365. According to Metro personnel, this pooling methodology was intended to promote competition and expedite small purchases for certain skilled services, such as roofing, plumbing, HVAC, etc., by creating a pool of vendors that were in essence pre-authorized for the service. Departments were required by policy to contact several vendors within the pool for price quotes for specific jobs, and select the vendor with the lowest quoted price for the work at hand. However, based on review of internal memorandum and analysis, it appears that the methodology did not promote competition and departments utilizing this methodology still awarded specific jobs to one or two vendors within the pool. More importantly, the methodology violated statutes for competitive sealed bidding.

Various departments within Metro need skilled technicians for building maintenance, repairs, and other services. Competing objectives between the departments makes it difficult to award single vendor price contracts for these services. This policy was to permit flexibility for departments in hiring technicians for jobs with an overall cost less than $10,000 bid limitation, but Metro-wide these services greatly exceed the $10,000 bid threshold. The effect of this policy is noncompliance with KRS 45A.365 for competitive bidding.

This policy was reviewed by Metro Finance Purchasing Division and the Jefferson County Attorney during FY 2009, and it was deemed to be noncompliant. Although internal memorandum directed departments to end the practice, Metro Purchasing indicated that re-bidding in a manner that follows the statutes takes time to implement due to the coordination of the various departments. Therefore, Metro Purchasing authorized agencies to continue to utilize this methodology throughout FY 2009 until alternative bids could be put into place. However, Metro Purchasing indicated it did implement procedures beginning in February 2009 to properly evaluate the process and create appropriate specifications that would cover all departments for each trade. Under the new process, Metro Purchasing indicated that bids will be awarded to primary, secondary, and tertiary contracts to give flexibility to departments in the event a contractor is not available for a specific job.

KRS 45A.365 states, "… (5) A contract shall be awarded with reasonable promptness by written notice to the responsive and responsible bidder whose bid is either the lowest bid price or the lowest evaluated bid price."

Recommendation

We recommend Metro Purchasing continue re-bidding service contracts that were awarded in violation of KRS 45A.365 until all bids are compliant with the statute. Furthermore, we recommend Metro Purchasing review all policies and procedures to ensure compliance with the Model Procurement Code and Metro Ordinance, and seek input and guidance from the Jefferson County Attorney's office as needed.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2009-METRO-09: Metro Should Comply With KRS 45A.365 In Awarding Bids (Continued)

Management's Response and Corrective Action Plan

Metro Government's Purchasing Division identified this as an issue and brought it to the attention of the auditor. The pooled vendor concept was in response to a Metro Government department that felt having a primary vendor led to price gauging by the vendor. The pooled vendor concept was to bid and award to a pool of vendors that would be used on jobs estimated to be under $10,000. Price quotes would be obtained from at least three of the vendors from the pool and the job awarded to the lowest quote. It was determined by Metro Government that this method of bidding did not meet the requirements of KRS 45A.365 to award to the lowest bid or the lowest bid price. Therefore Metro Government discontinued this practice and has rebid all but one of the contracts that considered part of the pool. The one remaining contract will be rebid in accordance with KRS 45A.365.

Auditor's Reply

Although Metro Purchasing did discuss this issue with the auditor, auditors noted concerns regarding the use of the pooled vendor concept prior to that communication. However, we appreciate that Metro Purchasing made an independent determination on the noncompliance of this methodology and took steps toward corrective action prior to the end of the fiscal year.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-10: Metro Purchasing Should Identify Required Elements For All Metro Contracts, Including A Right-To-Audit Clause

During our audit, information came to our attention indicating potential weaknesses regarding an economic development loan between Louisville Metro and LG Financial, Inc. In this loan agreement, Louisville Metro Economic Development entered into a $1.8 million, 5-year forgivable loan for the restoration and rehabilitation of the Starks Building and/or vacant space in the Kaufman-Straus Building for the purpose of continued redevelopment of the area in the Fourth Street Entertainment District. Two weaknesses were identified related to this agreement:

- The agreement did not contain a right-to-audit clause. Audit clauses permit the government to review financial records of entities it does business with to ensure funds are spent appropriately and in compliance with terms of the agreement. A review of other agreements entered into by Louisville Metro Economic Development indicated the existence of such a clause, but it appears to have been omitted from the loan agreement.
- When questions were raised by the Louisville Metro City Council as to the use of these funds, LG Financial, Inc., agreed to permit a review of its records, but the written agreement contained rigid limitations and imposed penalties for any breach of the provisions of the agreement. The limitations within this agreement included:

    - All documents must be reviewed in the Maryland offices of LG Financial, Inc.;
    - Only one member of the review team was permitted to make notes and notes were required to be exempt from disclosure under Kentucky's open records laws;
    - All members of the review team were required to sign strict confidentiality agreements;
    - The agreement and any dispute arising in connection with matters contemplated under the agreement were to be governed in all respects by the internal laws of the State of Maryland;
    - The only written statement permitted under the agreement was required to follow the form of a sample letter attached to the agreement, and restricted further written or verbal statements concerning the materials reviewed.

The auditor did not ascertain the cause for the missing audit clause in the amended agreement. The omission of an audit clause from such a significant agreement impairs Metro's ability to properly monitor the projects it funds to ensure its resources are used appropriately, for necessary and reasonable expenses, and to the benefit of its taxpayers.

Although we recognize that Metro's options were limited in requiring the borrower to provide details of its use of the funds due to the lack of an audit clause in the contract, by signing the confidentiality agreement as it existed, Metro became a party to the limitations that impaired its responsibility for transparency and accountability of its operations. While it is reasonable to want to avoid disclosure of certain proprietary information which would impair a company's competitive advantage, the agreement was so restrictive that it offered little or no mutual protection to the government or its taxpayers.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-10: Metro Purchasing Should Identify Required Elements For All Metro Contracts, Including A Right-To-Audit Clause (Continued)

Proper internal control dictates that government policies enhance transparency and accountability to its citizenry, which requires open inspection of its expenditures. This objective is met through agreements that permit the right to audit books and records of vendors, contractors and borrowers it funds to ensure taxpayer dollars are used for intended purposes.

Recommendation

We recommend Metro Purchasing develop a policy of required elements for all contracts and agreements entered into by Louisville Metro agencies, utilizing the services of the Jefferson County Attorney as needed. We recommend a right-to-audit clause be one of these required elements. We understand Louisville Metro Council has taken steps to create an ordinance granting the government the ability to audit entities with which it provides funding. However, this should be reiterated in contract language to ensure all parties entering into the agreement are aware of the requirement.

Management's Response and Corrective Action Plan

The loan agreement reviewed by the auditors was for a forgivable loan. The purpose of forgivable loans is to induce the recipient to take an action which it would not or could not undertake but for the receipt of the loan. In a typical situation, the action being induced is the construction or reconstruction of a facility that will be used by the recipient for a purpose which will create jobs and generate tax revenue. In those instance, the only way the Metro can verify that the loan was used for the intended purpose is to require the recipient to submit evidence of its expenditures to construct or reconstruct the facility and in such instance a 'right to audit' provision is included in Metro's agreement with the borrower.

The loan reviewed was not a typical loan as described above. The purpose of the loan was to provide funds to be used by LG Financial, Inc. solely to provide tenant assistance to attract new retail, restaurant, and office and entertainment tenants. In this instance the recipient is not using the loan proceeds to construct or reconstruct a facility, but to induce a third party to lease space within the complex owned by the recipient. The proof that the forgivable loan was used for the intended purpose as outlined above would be a signed lease which provides for the payment of the tenant assistance, a copy of the cancelled check from LG Financial to the tenant, receipt from the tenant acknowledging receipt of the funds, and evidence that the tenant opened a business at Fourth Street Live! If Metro Government receives the evidence above, then it is assured that LG Financial has fully complied with the terms of the forgivable loan and used the proceeds for the intended purpose.

In the specific loan agreement questioned, Metro Government was provided with the evidence referenced above and, acting with an abundance of caution, felt further evidence was required as the tenant leasing the space at Fourth Street Live! is owned by an entity with common ownership

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2009-METRO-10: Metro Purchasing Should Identify Required Elements For All Metro Contracts, Including A Right-To-Audit Clause (Continued)

Management's Response and Corrective Action Plan (Continued)

as the borrower. Metro Government requested, and was permitted, to review the expenditure records to ensure that the loan proceeds were used for the intended purpose. The records were reviewed by the Metro Council President, Metro Government's Internal Audit Director, the Director of Economic Development, and the Financial Director and Legal Counsel of the Economic Development Department. The five individuals who reviewed the use of funds documented that the funds were used in accordance with the loan agreement and the expenditures by the tenant were for the property the loan agreement intended.

Metro Government will continue to ensure that the use of government funds is transparent to its citizens. Metro Council has enacted an ordinance that requires all loans over $150,000 to be approved by the Metro Council prior to the release of funds. Metro Government will also work to ensure that all contracts contain a 'right to audit' clause to further ensure that the use of government funds is transparent to the citizens of Metro Louisville.

Auditor's Reply

Metro's response indicates that the individuals who reviewed the use of funds documented that the funds were used in accordance with the loan agreement, and the expenditures by the tenant were for the property the loan agreement intended. However, the auditor would like to point out that Metro Internal Audit's report on the use of funds for this agreement documented a scope limitation and does not offer assurance on the completeness, accuracy or reliability of the documents reviewed.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-11: Metro Finance Should Properly Segregate Duties Related To Void Check Processing

During our audit of accounts payable, we noted a lack of segregation of duties over the processing of voided checks. The auditor noted that one person performs all of the following processes:

- The Metro Finance Cash Management cashier receives the void check voucher from Metro Finance Accounts Payable along with original checks that have been marked “void,” “void cancel,” “void hold,” or “reissue.”
- The cashier then processes the void in the system, cuts out the signature on the check, and files the check.
- The system generates a voided check report, and the cashier performs a reconciliation. There was no evidence of additional review of the reconciliation and/or voided checks.

Metro Finance Cash Management employees are not following written policies and procedures over voided checks. As a result of this lack of segregation of duties, there is an increased risk that misstatements caused by error or fraud may occur but go undetected. Also, significant weaknesses were noted over the cashiering process as noted in a separate finding, which further increases the risk of undetected errors or fraud.

Good internal controls dictate that incompatible duties of processing voids, recording them in the financial accounting system, and reconciling void check reports be properly segregated to reduce the risk of error or fraud.

Recommendation

We recommend Louisville Metro Finance follow established policies and procedures for processing voided checks and segregate the duties to ensure the person processing voids is not the same person that receives and reconciles them. Also, the department should consider maintaining a copy of the original payment document and/or invoice with the void request.

Management’s Response and Corrective Action Plan

Metro Government places great importance on the processing of checks and the process of voiding checks. While Metro Government will ensure that all applicable policies and procedures are being followed, Metro’s use of Positive Pay provides additional assurance that all checks cashed are checks that Metro Government has issued and considered negotiable. Voided and canceled checks are reported to the bank through Positive Pay and are not cashed for Metro Government by the bank. As an additional safeguard, Metro Government will ensure that appropriate segregation of duties exists for the voiding of check in the financial system.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-12: Metro Finance Should Improve Internal Controls Over Payroll Check Distribution

During the course of our audit, we noted that the Louisville Metro Finance Payroll Division was not reconciling the number of checks printed to the "Transfer of Checks from Payroll Division to Cash Management Division" reports. In processing payroll checks, Metro Payroll Division prepared these reports each pay period of the number of checks printed for each department, and the report was then forwarded to Metro Cash Management Division along with the actual checks for disbursement. The report was used as a departmental sign off sheet when checks were picked up. Metro Cash Management Division performed a reconciliation between the Transfer of Checks report and the number of checks received, and documented the discrepancies on the payroll report. However, Metro Cash Management Division did not investigate the cause for the discrepancies, or communicate discrepancies to Metro Payroll Division for correction.

Metro Finance indicates the variances in the Transfer of Checks report may indicate the existence of zero dollar checks printed but removed from the checks sent to Cash Management for distribution. Furthermore, Metro Finance stated that compensating controls are in place to ensure these variances do not result from terminated or transferred employees that may continue to be paid in error after termination or paid under the wrong departmental codes. However, without further investigation and documentation of the cause for the variances, there is an increased risk that errors in payroll check distribution could exist and not be detected.

Good internal controls dictate that reconciliation of payroll data be performed to ensure accuracy and completeness, and to ensure that payroll distribution records are accurate.

Recommendation

We recommend Louisville Metro Finance Payroll Division reconciles payroll checks to the "Transfer of Checks from Payroll Division to Cash Management Division" report before sending them to Metro Cash Management Division for disbursement. We also recommend any discrepancies in the number of payroll checks noted by Metro Cash Management Division be documented and sent to Metro Finance Payroll Division for prompt investigation.

Management's Response and Corrective Action Plan

During a review of this process, Metro Government determined that it is more appropriate to move the check printing function from the Payroll Division to Cash Management. The Payroll Division will initiate the printing of payroll checks and will run a report to summarize checks printed by department. This report will be taken to Cash Management and the Cash Management staff will check the number of checks printed to this report. Any discrepancies noted will be reported to and investigated by Payroll. The reconciliation of checks printed to checks issued will be maintained by Cash Management.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-13: Metro Human Resources Should Implement Procedures To Improve Documentation Related To Personnel Actions

During our audit of payroll and personnel, we noted that Louisville Metro Human Resources Department does not keep an updated position personnel and action form (PPAF) in each employee's file. We noted 13 instances in which employee files did not have an updated PPAF form. Auditor noted there was no consistency in pay rates per the PPAF and the pay register. According to Human Resources a current PPAF is filed in every employee's folder to document hiring, termination, promotion, demotion, transfer, change job data, change position data, reclassification, and creation of new positions for employees.

Without having the most current PPAF on file, there is an increased risk that an employee could be paid an incorrect salary, or improperly classified in the payroll system, or that changes can be made to an employee's file without appropriate authorization. Due to the errors noted, auditors were unable to determine that all changes were properly authorized.

According to the Instruction Manual for the Position and Personnel Action Form, The Louisville/Jefferson County Metro Government Position and Personnel Action Form (PPAF) is the document that will be used by the agencies to hire, terminate, resign, promote, demote, transfer, change job data, change position data, reclassify and create new positions for employees. Proper internal control dictates that all changes to an employee's personnel records be properly authorized and documented.

Recommendation

We recommend Louisville Metro Human Resources Department immediately implement procedures to ensure that accurate and up-to-date PPAFs are maintained in employees' files.

Management's Response and Corrective Action Plan

While Metro Government recognizes the importance of having an accurate PPAF on file for employees, there are certain instances in which a PPAF is not completed. Upon receiving this finding, Human Resources reviewed the auditors list of exceptions and noted that seven exceptions were the result of a mass payroll adjustment related to the 2% increase on July 1, 2008, three were the result of union step increases per the approved union contract, two were promotions that were made through a job requisition (meaning there would be no PPAF), and one was the result of a job audit. Documentation of these items is maintained by Human Resources and supports the pay rate of the exceptions noted.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-13: Metro Human Resources Should Implement Procedures To Improve Documentation Related To Personnel Actions (Continued)

Auditor's Reply

We would like to clarify that the employees receiving the 2% increase mentioned in Metro's response were not included in the 13 exceptions identified in this finding. Of the 13 exceptions noted, nine were due to differences between the pay rate listed on the PPAF and the pay rate paid per the pay register, and four were due to employee files having no documentation of the employee's pay rate. The auditor was informed during inquiry with Metro Personnel that only mass pay rate increases were not documented on a PPAF, because mass increases are evidenced by a letter included in employee files. The auditor understood that Metro Personnel documented all other pay rate changes on a PPAF, which is the appropriate documentation for changes in employee wages. The department was provided a list of all outstanding exceptions, and did not provide any additional documentation to clear the exceptions.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-14: Metro Should Ensure Employee Benefits Are Consistently Applied In Accordance With Established Policies And Procedures

During the FY 2009 audit, we noted the following weaknesses in Louisville Metro's (Metro) payroll and personnel policies and procedures:

- Two members of Metro management received pay-outs upon retirement for 20 days of accrued vacation leave over the maximum amount allowed per Metro Personnel Policy.
- One retiring employee received a pay-out for 5 days of accrued compensatory leave, which is not allowed per Metro Personnel Policy.
- One member of Metro management was paid an annual contribution toward the purchase of service credit in the County Employees Retirement System (CERS). The annual contribution was initially set at $25,000 per year for the first five years, and then was increased by an additional $9,000 per year to offset increases in retirement costs since the employee's hire date. There is no mention of purchasing service credit for external service in Metro Personnel Policy.

Metro management overrode Metro Personnel Policy in order to pay employees in excess of allowable limitations. Per conversations with Louisville Metro Human Resources Department personnel, additional leave time was paid to the retiring and active employees noted above so they were not penalized by their inability to take time off due to the demands of their positions. Although the Mayor approved the additional leave time pay outs, management's override of existing policies creates inconsistencies and inequities in practice by establishing a different set of benefits available to some employees, but not others. Policies and procedures are in place to avoid such inconsistencies, and to avoid unfair or inequitable practices among personnel.

In regards to the annual contribution toward the purchase of service credit, documentation indicates that the contribution was offered as part of the compensation package to keep the employee from losing four and one-half years of service credit earned through employment in another state. However, there was no documentation that Metro received guidance from the Jefferson County Attorney's office ensuring that this practice did not violate Section 3 of the Kentucky Constitution, which prohibits bonuses for public employees. The auditors verified that the Mayor's General Counsel was consulted about this compensation benefit, but there was no documentation on file regarding the legal determination made.

Metro Personnel Policy Section 5.3(7) states "Upon separation from Louisville Metro Government employment, an employee shall be paid for all accrued unused vacation leave, not to exceed 40 days. Such payment will be made in one payment in the final paycheck of the employee. Any remaining vacation balance after this payment shall be reduced to zero."

Louisville Metro Government Personnel Policy Section 4.4(7) states "An employee is not paid for accumulated compensatory time upon separation."

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FINDING 09-METRO-14: Metro Should Ensure Employee Benefits Are Consistently Applied In Accordance With Established Policies And Procedures (Continued)

Kentucky Constitution Article 3 states: "All men, when they form a social compact, are equal; and no grant of exclusive, separate public emoluments or privileges shall be made to any man or set of men, except in consideration of public services…"

Recommendation

We recommend Metro Personnel Policy be followed to ensure that employees are treated fairly and consistently. Furthermore, we refer the question regarding the purchase of service credit for employees to the Jefferson County Attorney for further review, and recommend Metro incorporate the guidance of the County Attorney before implementing such practices in the future. Documentation of guidance obtained from the County Attorney in personnel and other policy matters should be maintained.

Management's Response and Corrective Action Plan

Metro Government places great importance on the administration of payroll for the entire government. The Payroll division is responsible for the accuracy and integrity of the largest annual expenditure of Metro Government. Metro Government's Personnel Policy outlines the policies regarding employee payouts for terminated employees. The Personnel Policy also authorizes the Human Resources Director to make exceptions to policy as deemed appropriate on a case by case basis. Metro Government will continue to document policy exceptions and will ensure the Director of Human Resources provides a written "sign off" on policy decisions that are made.

Metro Government did not purchase service credit for the employee as noted in the finding above. The employee in this finding negotiated a salary that included the amounts listed above, but the employee was free to use those funds as they chose.

Auditor's Reply

Metro's response indicates the government did not purchase service credit for the employee noted in the finding. However, documentation obtained during the audit indicated the initial intent was for $25,000 per year be set aside as a contribution toward the purchase of service credit upon the employee's vesting in CERS. Subsequent documentation indicated additional details of the purchase of the service credit, with an additional amount paid to the employee as an "employer-provided payment for purchase of service credit" to offset amounts being deducted from the employee's paycheck. The auditors are not aware of any additional documentation that reversed or cancelled these instructions.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-15: Metro Should Improve Required Education And Experience Criteria For Business Managers And Provide Mandatory Annual Training

During our audit we followed up on a prior year finding regarding training and qualifications of business managers in Louisville Metro (Metro). Our follow-up identified weaknesses consistent with the prior year, including:

- There is a lack of mandatory training required by Louisville Metro Finance Department of all departmental business managers. Metro Finance does offer training opportunities for business managers, but they are not required to attend.
- There is a wide variety of experience and background of the business managers. Some business managers are experienced in accounting and business operations, while others have a non-business background.
- Metro permits individuals to qualify for the business manager position by substituting certain work experience for the minimum education requirements.

Weaknesses related to inconsistencies in the education and background of business managers may be attributable to departments recommending employees for positions due to their work experience in the department, work ethic, or other favorable qualities that do not meet experience and/or educational goals that promote strong financial management. Business managers are responsible for overall business and budgeting functions that require the appropriate business or accounting background to perform. Employees may learn those functions through experience, but are still more susceptible to errors without appropriate training and education because strong financial managers must also be able to assess the risk of errors or fraud caused by non-routine transactions, new accounting standards, changing policies or business operations, and be able to adjust business decisions and actions accordingly.

Proper internal control dictates that strong financial management within the departments possess the appropriate education and training to perform both current functions and have the skills to lead the department through future change in accounting, reporting, or business practices.

According to the Louisville Metro Human Resources job description, the business manager requirement is a bachelor's degree in: accounting, business administration, finance, public administration, or related field, and three years accounting, finance, budget preparation, budget analysis, financial analysis, or business administration experience. An equivalent combination of education and experience may be substituted.

The Louisville Metro Human Resources job description's essential functions are listed as managing the accounting, payroll, budget and purchasing activities and operations, as well as monitoring expenditures, preparing the operating budget, and exercising supervision over subordinate personnel.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-15: Metro Should Improve Required Education And Experience Criteria For Business Managers And Provide Mandatory Annual Training

Recommendation

We recommend Louisville Metro revise its current practice of allowing previous experience to substitute for the entire minimum educational requirements. We suggest Metro consider accepting only relevant accounting or business experience for any substitution in education, but that minimum education qualifications also stipulate a specific amount of accounting and/or finance education that cannot be substituted.

We also recommend all business managers be required to attend Louisville Metro Finance Department business or accounting training at least annually.

Management's Response and Corrective Action Plan

Metro Government places great importance on the role of the Business Manager at the departmental level. Metro Government has internally reviewed the qualifications of department Business Managers and found that 75% of Business Managers have a bachelor's degree, and 92% of those with bachelor's degrees have degrees in a business related field. In addition, 25% of Business Managers have an advanced degree. Finally, Metro Government recently contacted our human resources consultants and they have verified that the substitution of experience for education is an industry practice.

In order to support the Business Manager function at the department, Metro OMB recently created a position that will act as a liaison between the departmental Business Manager and the Metro OMB. This position will identify training opportunities for departments and work with both the department and the Metro OMB to implement policies to ensure financial reporting is accurate.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-16: Metro Should Capitalize Asset Renovation Costs In Accordance With Generally Accepted Accounting Principles (GAAP)

During our audit of the Louisville Metro CAFR, an audit report was released by the Kentucky Transportation Cabinet (KYTC) indicating the results of its audit of the Trolley Barn Renovation Project, which was partially funded by KYTC's Transportation Enhancement (TE) funds passed through to Metro. The KYTC report raised numerous concerns related to the accounting and oversight of the Trolley Barn Renovation Project expenditures, including:

- The inability to confirm the total cost of renovation expenditures due to comingling of public and private funds and lack of records;
- Lack of sufficient oversight of the Trolley Barn Renovation Project;
- Improper procurement procedures in awarding the Trolley Barn Construction Management Contract;
- The construction manager hired by AAHC to solicit bids, execute contractor/subcontractor agreements, and assist AAHC in project management decisions was permitted to also bid on the construction contracts;
- AAHC did not ensure the Trolley Barn construction manager was fully bonded prior to awarding the construction manager contract;
- Proper procurement procedures were not followed for $15.3 million dollars in construction costs;
- Metro's payment to the architect on this project exceeded the contractual amount by $1.4 million dollars;
- AAHC failed to competitively bid materials for the renovation project; and
- Metro did not appropriately capitalize construction in progress related to the Trolley Barn renovation in its financial statements.

The auditor reviewed the KYTC Trolley Barn Renovation project report and the supporting documentation, and agreed that appropriate evidence existed to support the findings. The supporting evidence was reviewed to determine the impact on the FY 09 Louisville Metro CAFR audit. Although serious concerns were noted in relation to the AAHC's project operations, the AAHC is not a component unit of Metro and was outside the scope of the FY 09 CAFR audit. Therefore the auditor's primary concerns related to evidence indicating Metro did not properly capitalize the full historical cost of the Trolley Barn renovation as required by generally accepted accounting principles (GAAP), and Metro's failure to properly monitor the project.

The KYTC report pointed to historical cost estimates of the Trolley Barn renovation exceeding $19.8 million, and indicates this is likely a low estimate of historical cost because records for expenditures financed from some sources, such as donations, were not complete. Furthermore, KYTC reimbursed Metro for an additional $5.2 million in renovation costs for FY 2009 to complete the Trolley Barn Renovation project, bringing the known historical costs to $25 million. To date, Metro has capitalized costs totaling approximately $12 million for the capital asset. GAAP requires that constructed assets be capitalized at actual historical cost regardless of the source of funds, even if construction or renovation expenditures were financed through funds supplied by another entity.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-16: Metro Should Capitalize Asset Renovation Costs In Accordance With Generally Accepted Accounting Principles (GAAP) (Continued)

From discussions with Metro Finance, auditors noted that Metro Finance believed the contributed amounts by AAHC were for leasehold improvements related to exhibit space and tenant fit up costs, not for actual renovation and stabilization of the Trolley Barn. The auditor reviewed the contractor's records on file in the KYTC working papers, and noted that all construction was performed and billed under the renovation contract. There is not a separate contract or itemized billing for improvements. Therefore, it is not possible to determine the difference between renovation costs and improvements. Also, in order for AAHC to be eligible to capitalize its leasehold improvements, the lease must meet the definition of a capital lease. The auditor did not determine this lease met the terms of a capital lease because it did not meet one of the four specific criteria required for capitalizing leases established by GAAP, and therefore capital improvements should be recorded by Metro as the property owner.

The failure to capitalize all costs associated with the Trolley Barn renovation understated Metro's financial statements. The auditors reviewed the supporting documentation for the KYTC report, and determined that valid evidence exists to support the $19.8 million historical cost estimate. Therefore, the auditor submitted an adjustment to Metro Finance for approximately $13 million to account for the difference between the amount Metro previously capitalized and the amount of this estimate, with $5.3 million of this adjustment being recommended as an FY 09 addition and the remaining $7.7 million recommended as a prior period adjustment to correct errors caused by the failure to capitalize historical costs prior to FY 2009. Metro Finance did adjust its records by $6.7 million and therefore the financial statements as of June 30, 2009 are understated by the difference between this additional amount capitalized and the audit adjustment, or approximately $6.3 million dollars.

Metro's failure to provide appropriate oversight over the Trolley Barn Renovation project appears to have led to improper procurement of goods and services, cost overruns and poor recordkeeping associated with the renovation costs.

GASB 34 states:

> 18. Capital assets should be reported at historical cost. Ancillary charges include costs that are directly attributable to asset acquisition - such as freight and transportation charges, site preparation costs, and professional fees...
>
> 19. As used in this Statement, the term *capital assets* includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period….

Furthermore, proper internal control dictates that capital projects be monitored to ensure the project costs are properly accounted for, compliant with all applicable laws and regulations, and to ensure that the operations are transparent and in line with the government's goals and objectives for the projects.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-16: Metro Should Capitalize Asset Renovation Costs In Accordance With Generally Accepted Accounting Principles (GAAP) (Continued)

Recommendation

We recommend Metro Finance fully capitalize the historical costs associated with the construction and renovation of the Trolley Barn. Also, Metro Finance should implement procedures to ensure all costs associated with future capital renovation and/or construction projects are capitalized in accordance with its capitalization policy and GAAP, and all future projects are properly monitored to ensure funds are used appropriately and in accordance with all applicable requirements.

Management's Response and Corrective Action Plan

Subsequent to fiscal year end, Metro Government reviewed the amounts capitalized and recorded as construction in progress related to the Trolley Barn and adjusted the general ledger amount to approximately $18 million dollars. This amount was substantiated by expenditures booked by Metro Government and a professional analysis performed by a general contractor as to the value of construction subsequent to the stabilization of the Trolley Barn. Per further discussion with the auditors, Metro Government is researching the possibility of recording an impairment loss on this asset.

Since the completion of the Kentucky Transportation Cabinet's audit, the Cabinet, the Federal Highway Administration, the State Historic Preservation Office, Metro Government and the African American Heritage Center Foundation have met and discussed the timing of the transfer of the property to the Foundation. No impediments were discussed and all parties are moving toward a date to complete the transition of the property to the Foundation.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-17: Metro Finance Should Improve Internal Controls Over Reporting Capital Assets

During the testing of capital assets, the auditor noted two assets that were similar in description and amount, totaling $12.3 million. Upon inquiry with Metro Finance, it was determined that the items were duplicates, and listed on the capital asset list twice in error. Although Metro Finance corrected the duplicate items after the error was pointed out, the department should have procedures in place to detect errors and correct errors.

Metro Finance relies on the departments to review the capital asset list for accuracy and completeness, and does not review the list thoroughly for errors. As noted in a separate finding, several agencies did not have appropriate procedures in place to monitor and track capital assets, and did not routinely perform physical counts to detect errors. Therefore, a review by Metro Finance for obvious errors is even more important.

The result of having duplicate items on the capital asset list is an overstatement of capital assets. Also, there is an increased risk that there are other errors due to this lack of review.

Good internal controls dictate that governments have appropriate procedures in place to ensure capital asset reporting is accurate. This includes procedures to ensure all capital assets transactions and supporting schedules be properly reviewed, approved and evidenced by adequate documentation for proper recording and reporting of capital assets in the financial statements.

Recommendation

We recommend Metro Finance thoroughly review the capital asset list and develop a procedure to follow up and correct errors noted on the list before using the information for financial statement reporting.

Management's Response and Corrective Action Plan

Metro Government places great importance on the reporting of capital assets and had identified this as an area where improvement was needed upon the auditors visit. Currently, Metro Government is reviewing the current Asset Management policy and has identified the recommendation above as an addition to the policy.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-18: Metro Human Resources Should Improve Procedures For Verifying Health Insurance Claim Payments

Louisville Metro spends a significant amount funding its self-insured employee health plans. Claims are reviewed by third party administrators (TPA), who then authorize withdrawals from Metro funds to pay claims. Although the TPA submits claims detail to Metro Human Resources to support its draw against the health insurance account, Metro Human Resources performs no independent review of the information to assess the propriety of claims paid. This lack of review was also noted in a prior year audit comment.

We also noted that Metro Human Resources does not audit dependents to determine that they are the spouse or a dependent child of a Metro employee. This type of verification procedure reduces the risk that Metro may be paying health insurance claims for individuals that are not employees or their eligible dependents.

Metro has indicated in responses to previous findings that it relies on the validity of claim activity reported by the TPAs. Total reliance on the TPA for accuracy and validity of claims means that Metro pays thousands of dollars each month in health care claims that may not be accurate or for valid employees or their dependents. Since the TPA is a health insurance provider and also acts as a claims administrator for other entities, there is a risk that errors may occur on the part of the TPA.

In addition to auditing claims payments to reduce the risk of TPA errors, auditing dependent eligibility further ensures that Metro's database of claimants is accurate. Failure to perform dependent verifications increases the risk that Metro could be paying claims for individuals that are not entitled to Metro's benefits.

Proper internal controls dictate that a procedure be in place to ensure the validity and accuracy of payments made to health care providers on behalf of employees. As a self-insurer, Metro has a heightened responsibility to ensure health care dollars are spent appropriately.

Recommendation

We recommend Metro Human Resources implements a review of claims paid. The review should verify the accuracy of amounts paid to health providers and to insure that payments were made on behalf of qualifying Metro Government employees and/or dependents. Due to the volume of transactions, the government may consider initially performing the review on a test basis until an automated routine can be implemented to compare TPA claim payments against a database of Metro employees and/or dependents.

We also recommend Metro Human Resources implement procedures to perform periodic dependent audits to ensure that dependents meet the appropriate eligibility requirements to receive Metro health insurance benefits.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-18: Metro Human Resources Should Improve Procedures For Verifying Health Insurance Claim Payments (Continued)

Management's Response and Corrective Action Plan

Entities hire third party administrators for self insurance functions to review and process claims. The current human resources industry standard is to conduct an audit of dependent eligibility and claims eligibility every two to three years. Human Resources is recommending to the Mayor and Metro Council that this review by completed every two years.

Metro Government has already budgeted and scheduled this review for fiscal year 2010. The review will begin in early January 2010 and will be a review of all claims processed in calendar year 2009. In addition to the upcoming review, an audit was performed on pharmacy claims paid by Walgreens for calendar year 2008. As a result of this audit, Metro Government was able to recoup approximately $300,000.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-19: Metro Risk Management Should Improve Internal Controls Over Claims Payments

During our testing of risk management activities, we noted that Metro Finance authorized payments of automobile, general liability and worker's compensation claims without sufficient supporting documentation and appropriate approvals. Metro is principally self-insured for auto, general liability and workers compensation claims. Metro participates in a certified self-insurance liability pool for catastrophic claims above a $500,000 deductible per occurrence for auto and general liability claims, and $1 million dollar occurrence with additional $1 million dollar corridor deductible for worker's compensation claims. All claims are processed through a Metro Risk Management Supervisor to assign a claims number, and then litigated claims are forwarded to the Jefferson County Attorney's office and all non-litigated claims are forwarded to Metro's claims contract administrator.

According to the Metro Risk Management Supervisor, for litigated claims, the County Attorney submits a settlement authorization request and a check request form for approval prior to a settlement. During testing, we found that the supporting documentation provided for payment documents was not sufficient to determine whether the settlement was authorized or reviewed, nor did it even identify that the payment request originated at the County Attorney. Upon further inquiry and review, we found that proper documentation was not on file to support these payments.

For non-litigation claims, the claims contract administrator has blanket authority to settle and pay claims below $5,000 using an imprest account, and the Risk Management Supervisor must approve claims exceeding $5,000. We noted instances in which Risk Management authorized settlement payments and/or reimbursements to replenish the claims administrator's imprest account based solely on a payment reconciliation list from the claims contract administrator. Furthermore, the Risk Management Supervisor does not reconcile claim payments to the claims assignment log to verify the incident.

The lack of formal documentation from the County Attorney's office to indicate the origination of the pay request and appropriate authorization and review of the settlement increases the risk that erroneous or falsified pay requests could be submitted and go undetected.

Because the claims contract administrator reviews and settles claims for numerous entities, the lack of sufficient supporting documentation from the claims contract administrator increases the risk that claims could be paid in error.

The lack of reconciliation to the claims assignment log increases the risk of error in paying claims of other entities, duplicate payments for the same claim, and impairs the Metro Risk Management Supervisor's ability to detect those errors.

Proper internal control dictates that claims payments be supported by sufficient evidence to determine that the expense incurred is for a legitimate claim (Metro employee, correct incident reported, etc.), and has been properly approved by an authorizing agent.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2009-METRO-19: Metro Risk Management Should Improve Internal Controls Over Claims Payments (Continued)

Recommendation

We recommend the Metro Risk Management Supervisor reconcile all monthly claims payment requests to the claims log. In addition, we recommend Metro Risk Management Division develop a standardized pay request for both litigated and non-litigated claims to ensure appropriate information and authorizations are documented. This pay request may be a secure electronic form to facilitate Metro's goal of reducing paper copies. Furthermore, we recommend that Metro Risk Management Division implement procedures to ensure all appropriate supporting documentation is maintained.

Management's Response and Corrective Action Plan

Currently, Risk Management receives a standard pay request form from the Jefferson County Attorney's office requesting payment on litigated cases. As the information surrounding the litigation and Metro Government's legal defense is privileged, limited information is provided on the payment request. Risk Management will work with the Jefferson County Attorney to put the payment requests onto official letterhead to substantiate the origination of the payment request.

In addition, Risk Management will work with the Jefferson County Attorney and its third party administrator on non-litigated cases to reconcile the claims requests from these sources to the claims log maintained by Risk Management.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-20: Metro Departments Should Conduct Periodic Physical Counts Of Capital Assets And Improve Safeguarding By Tagging Assets

During internal control testing at the Louisville Metro Police Department (LMPD), Metro Public Works, and Metro Department of Corrections, auditors requested the results of the most recent capital asset physical inventory count. These departments indicated physical inventory counts had not been performed within the last two years.

Furthermore, auditors noted that Metro Public Works and Metro Department of Corrections did not have a system in place to routinely tag capital assets.

It appears that these Metro departments have not placed sufficient emphasis on the importance of a regular capital assets physical inventory counts. Furthermore, Louisville Metro Finance Department does not follow up directly with departments to ensure counts are completed, but indicated it obtains the departments' capital asset certifications to document what should be the verification of capital assets. Without regular capital asset physical inventory counts, the Metro departments' capital assets inventories may contain undetected errors.

Also, departments' failure to tag capital assets increases the risk of inaccurate reporting. Many capital assets have similar descriptions, and often serial numbers are difficult to locate or read during routine physical inspections. Therefore, the lack of unique tags for asset identification increases the risk of over/under reporting like assets.

Louisville Metro *Capital Fixed Assets Count Procedures* state "In accordance with GASB 42, federal grant requirements, and Metro fixed asset policies and procedures, each department of Metro is required to perform a full physical count of capital fixed assets every two years."

Sound internal controls suggest adequate procedures for monitoring and tracking capital assets, such as tagging assets. Furthermore, Metro Capital Fixed Assets Count Procedures recommends tagging of capital assets by departments.

Recommendation

We recommend:

- All Metro departments conduct capital assets physical inventory counts at least once every two years as required by Metro policy;
- Metro Finance follow up to ensure that departments conduct regular capital assets inventory counts;
- All Metro departments begin tagging capital assets with unique identifying numbers, and that tag numbers are used as identifying asset numbers in LeAP.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-20: Metro Departments Should Conduct Periodic Physical Counts Of Capital Assets And Improve Safeguarding By Tagging Assets (Continued)

Management's Response and Corrective Action Plan

Metro Government place great importance on the reporting of capital assets and had identified that this was an area where improvement was needed upon the auditors visit. Periodic physical inventories are required under the current Asset Management policy. While the departments in question may have completed the actual inventory of assets, at least one department was unable to produce the hard copy documentation of this count. The Metro OMB will work with departments to identify the resources needed to ensure these counts are completed timely and all appropriate documentation is retained by the department and/or the Metro OMB.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-21: Metro Department Of Corrections Should Improve Controls Over Handwritten Receipts And Take Steps To Improve Security Of Personal Information

Louisville Metro Department of Corrections (Metro Corrections) collects numerous small fees such as Fingerprint Fees for other departments or external businesses, Court Monitoring Center (CMC) Fees from the court system, and copy charges made by inmates or attorneys. In all three of these revenue streams, manual, handwritten receipts are used for cash collected. The handwritten receipts are given to the customer and the original is kept as documentation for reconciliation for funds collected. The handwritten receipt books are common, generic receipt books that can be purchased at an office supply store, and although they are pre-numbered, the department does not use the receipt books in numerical order, and does not inventory the receipt books assigned to the various employees collecting fees.

Furthermore, we noted that the CMC tracks its inmates by social security number. We noted social security numbers written on the receipts creating a potential security issue for the CMC inmates. We also noted other reports, as well as the CMC database, using social security numbers as identification.

The use of generic handwritten receipts is a significant fraud risk since it provides opportunity for the use of duplicate receipt books. This fraud risk is especially high when there is a lack of compensating controls, no inventorying of the books used, and small fees that are often paid in cash.

Also, although the use of social security numbers as identification was a common practice for certain businesses in the past, this practice is now seen as a security issue due to identify theft concerns, especially when the social security numbers are not secured and are located on hard copy documents and receipts.

Proper internal control dictates appropriate procedures for cash receipts to reduce the opportunity for theft or fraud. Furthermore, good business practices should include securing personal information, such as social security numbers, in a manner such that only those individuals with direct need for the information can access it.

Recommendation

We recommend Metro Corrections review its procedures regarding manual handwritten receipts, and determine whether cash registers or other type of automated receipt process can be implemented. If manual receipts are necessitated for certain fees, we recommend Metro Corrections utilize pre-printed receipts that are unique to the department, containing characteristics making them more difficult to duplicate, such as the departmental logo, watermarks, or micro printing. Furthermore, the department should maintain a log of manual receipt books issued to employees, implement procedures to ensure that receipt books are used in numerical order, and ensure that all receipt books are accounted for once used.

We also recommend Metro Corrections cease the use of social security numbers as receipt notations or file identification on printed or distributed reports. We recommend Metro Corrections instead create an identification system to use as inmate case file numbers for day-to-

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FINDING 09-METRO-21: Metro Department Of Corrections Should Improve Controls Over Handwritten Receipts And Take Steps To Improve Security Of Personal Information (Continued)

Recommendation (Continued)

day business needs. We recognize social security numbers may be required to ensure proper identification of individuals, and acknowledge that a secure cross-reference between the identification system and personal information is likely to be necessary. Cross-referencing procedures should be performed in such a manner as to protect the personal information, but permit the department to access accurate information when needed for legitimate purposes.

Management's Response and Corrective Action Plan

Metro Corrections recognizes that the current process for issuing receipts creates difficulty in tracking receipts issued. Metro Corrections is currently evaluating the possibility of producing receipts that are generated by a cashiering system. Until a new process is implemented, Metro Corrections will track the receipts books issued to employees and ensure that they are used in numerical order and all books are accounted for.

Metro Corrections agrees that the use of social security numbers creates an increased risk for identity theft and has already begun using the Corrections Identification Number ("CIN") that all inmates are assigned upon booking and social security numbers are no long recorded on receipts.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-22: Metro Department Of Corrections Should Properly Segregate Incompatible Cash Management Duties Over The Inmate Fund

During our review of internal controls over the Louisville Metro Department of Corrections (Metro Corrections) property room, auditors discovered a lack of segregation of duties involving the Inmate Fund. The property room receives cash from two sources - cash taken from persons being booked into the jail, and from deposits made by people outside of the jail to fund an inmate's account. Those funds are received by property room officers, applied to inmate accounts, processed at shift changes, and dropped in a drop box for verification and deposited by another individual. The auditor noted that only one property room sergeant is handling these funds after they are being dropped. This officer is responsible for verifying all shift drops made, preparing the deposits, and physically taking the deposits to the bank. This sergeant has the ability to post transactions and void items in the Inmate Management System (IMS) without approval or review from another party. The auditor observed the sergeant processing multiple days of receipts, and upon inquiry the sergeant indicated that he rarely takes time off, but when he does need to take time off he doesn't allow anyone else to perform these procedures when he is out.

This situation is caused by a lack of segregation of duties regarding the large amounts of cash and checks that come through Metro Corrections. Also, departmental policies do not require mandatory vacations and/or cross-training of certain key functions.

With one person preparing, verifying, and making the deposits without review, this person's work has minimal oversight. Also, as noted in a separate finding, the inmate account in IMS is not reconciled to collected cash, which enhances the risk that funds collected could be misappropriated or reported in error without detection.

Proper internal controls dictate that incompatible duties of collecting, depositing, and reconciling or voiding items are segregated to improve the department's ability to timely detect and correct errors or fraud. Also, good business practices over certain functions involving cash management require mandatory vacations or rotation from the position while another cross-trained individual performs the function.

Recommendation

We recommend Metro Corrections implement procedures to properly segregate duties and improve oversight over cash handling procedures for deposits into the inmate fund.

Management's Response and Corrective Action Plan

Metro Corrections recognizes that there is a lack of segregation of duties in process outlined above.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-22: Metro Department Of Corrections Should Properly Segregate Incompatible Cash Management Duties Over The Inmate Fund (Continued)

Management's Response and Corrective Action Plan (Continued)

Metro Corrections has identified the following changes that will be made to the current process:

- *Two property room officers are on duty at all shifts and the cash count and deposit of each officers will be verified by the other officer on duty.*
- *Cash deposits will be reviewed by the property room sergeant and taken to the Metro Corrections business office for deposit.*
- *Metro Corrections will identify the appropriate staff to cross train so that all deposits are processed in a timely manner by the property room staff in the event that current staff is off on leave.*
- *Metro Corrections technology division will review the current system levels of the property room officers and sergeant to ensure that each has the appropriate level of transactional authority.*

Metro Corrections will begin an armored car pickup for all cash deposits beginning in January 2010.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-23: Metro Department Of Corrections Should Improve Internal Controls Over Timesheet Processing

During review of Louisville Metro Department of Corrections (Metro Corrections) payroll records, we noted 7 instances in which employees' timesheets were not signed by the employee and their timekeeper/supervisor. Metro Corrections and Metro payroll policies require that timekeepers must obtain signatures on timesheets from employees agreeing with their time worked. The timekeeper/supervisor also must sign off on timesheets to validate the time reported is accurate, and then signed timesheets are submitted to the Payroll Specialist. All exceptions noted occurred under a Metro Corrections Payroll Specialist who is no longer employed by Metro Corrections.

This weakness appears to be related to oversight on the part of the former Metro Corrections Payroll Specialist. Signed timesheets are maintained as supporting evidence of the authorization and review of employee hours, but employee time reporting is automated and exception-based in PeopleSoft so employees are paid even when they or their supervisors do not approve the timesheet. Therefore, this automation of timekeeping made it possible for the Payroll Specialist to overlook this control without detection.

The effect of this weakness is that hours worked were not being consistently verified by the employees or their supervisors. This left detection and reporting of errors up to the employees when time reported did not agree to pay checks or stubs. Because of this, numerous adjustments were needed to correct errors, resulting in the issuance of manual checks. Furthermore, the failure to maintain certain payroll records violates U.S. Department of Labor's Wage and Hour recordkeeping requirements.

Metro Corrections Departmental Time, Attendance, and Payroll Regulations (4/19/06) Section C, Part 3a states, "The timekeeper will obtain signatures of each employee noted on the timesheet report. Employees must sign his/her timesheet to certify the accuracy of all time recorded…"

Metro Government Timekeeping Policy (Revised 9/19/06), Section 1.1(4) states, "Each employee must sign his/her record (time clock report or timesheet) to certify the accuracy of all time recorded…"

U.S. Department of Labor's Wage and Hour Division requires employers retain certain payroll records, including the number of hours an employee worked each day, number of hours worked each week, and records on which wage computation is based. The records do not meet this requirement when employees and supervisors do not authorize timesheets, or when payment is made based on the automated records without an accurate exception reporting by the employee.

Recommendation

We recommend Metro Corrections ensure Payroll Specialists are properly trained and are knowledgeable about payroll policies and procedures. The Payroll Specialist should obtain and maintain signed timesheets from employees and their supervisor's approval prior to processing payroll, which should reduce payroll adjustments and allow for more accurate payroll processing. Furthermore, management should provide additional oversight to verify the accuracy of payroll processing and investigate the nature of adjustments.

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FINDING 09-METRO-23: Metro Department Of Corrections Should Improve Internal Controls Over Timesheet Processing (Continued)

Management's Response and Corrective Action Plan

Metro Corrections acknowledges that there were instances in which a timesheet was not signed by the employee. This appears to be related to a lack of oversight by a former Metro Corrections payroll specialist. Metro Corrections will train the current payroll specialist on the importance of having all employee timesheets signed. Metro Corrections will also utilize the Metro Corrections human resources manager to ensure that all timesheets are appropriately signed.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-24: Metro Animal Services Should Take Steps To Improve Its Overall Business Climate

During our FY 09 Louisville Metro CAFR audit, tests of internal controls at Metro Animal Services (MAS) identified several factors that lead to an overall high risk business environment and also poor working conditions at the department. Auditors reviewed a report issued by Metro Internal Audit regarding concerns over a contract for services between MAS and Animal Adoption Agency, Inc. (AAA). The Metro Internal Audit report included reviews of policies and procedures for AAA activity, inventory and revenue process, and CDL compliance. The APA auditors reviewed the report and supporting evidence, concurred with the findings, and took this information into consideration in its risk assessment when determining what procedures to apply.

The APA's procedures at MAS were designed to avoid duplication with the work performed by Metro Internal Audit, and focused primarily on business processes of the department itself. During these procedures, auditors noted multiple weaknesses, as reported in separate findings. These weaknesses point to underlying factors that combine to create an overall high risk business environment. Some of these factors include:

- MAS did not have a full-time business manager from June 2009 until October 2009, and utilized part-time help from the former business manager and assistance from the business specialist to perform and oversee day-to-day functions.
- MAS had numerous control weaknesses over its major business functions - receipts, expenditures, and animal inventory.
- Physical working conditions at MAS are poor quality, and have deteriorated since the August 2009 flood. Examples of conditions noted by auditors included cramped and unclean workspaces and restrooms, overcrowded facility housing the animals, and lack of security resulting in vandalism.
- Employee morale is diminished due to pressures stemming from internal investigations, poor public relations reports, and employee complaints filed against the Director.

The concerns noted above create an overall poor business environment and working conditions. This type of environment creates both an opportunity and incentive for lax controls, thereby increasing the risk that error, theft or fraud could occur and go undetected.

Proper internal control dictates that the day-to-day working environment and conduct of business operations occur in a manner that supports timely and accurate operations and reporting, including strong fiscal management to oversee operations and working conditions that are clean, safe and well-maintained. Whereas we understand the August 2009 flood deteriorated conditions, it appears conditions prior to the flooding were overcrowded and disorganized.

Recommendation

We recommend MAS implement procedures to improve the overall business climate of the department, consider recommendations made in other findings related to improving internal

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 2009-METRO-24: Metro Animal Services Should Take Steps To Improve Its Overall Business Climate (Continued)

Recommendation

controls, and also consider short-term improvements that can be made to physical working conditions. We understand that MAS is in the process of building a new facility which should help with some of these issues, but until that time short-term improvements are recommended.

Management's Response and Corrective Action Plan

Subsequent to the auditors visit to MAS, a full time business manager has been hired and began work in October 2009. The Metro OMB is providing training and assistance to the new business manager and issues that were noted with internal controls over business functions have been mitigated with this hiring.

MAS acknowledges that the current conditions at MAS are less than optimal. MAS is actively working to improve the business climate of the department, the physical conditions of the building and office space as well as actively working to improve internal controls.

The auditors visit to MAS occurred after a major natural disaster on August 4, 2009. After the primary function of preserving the lives of animals in its custody was completed, the attention then turned to preserving and cleaning the facility and processing business transactions. The Metro Public Works department did an outstanding job of arranging vendors for clean up and the establishment of temporary work areas, however once the clean up was completed the established bid process for reconstruction had to be followed. The bid to restore the facility has been awarded subsequent to the auditors visit, and the reconstruction will be starting before December 31, 2009. At this time, MAS does not know how long the entire process will take to complete. MAS has outlined its priorities to the contractor and the top two priorities are the veterinary suite and the business office. The current facility was designed and built in 1966 and that design presents a challenge in the broader purpose of animal care the MAS serves today. The completion of MAS new facility will ease some of the items outlined above.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-25: Metro Animal Services Should Strengthen Internal Controls Over Receipts

During the FY 2009 Louisville Metro CAFR audit, we tested receipts at Metro Animal Services (MAS), and identified the following internal control weaknesses:

- Seventeen instances in which a Chameleon Cash Checkout Sheet was not signed by the business office clerk or adoptions clerk to verify their cash count at the end of the day. The Chameleon system is the financial and inventory system used by MAS.
- Two deposits included multiple days' receipts, indicating that receipts were held for several days. Upon further review, the auditor noted that the receipt total for each day was individually over $1,000. Metro's cash management policy stipulates that cash and check receipts over $1,000 should not remain at the business site for more than one business day.
- Ten deposits were not supported by a Chameleon Cash Checkout Sheet or Chameleon Summary Sheet, which supports the JV prepared and entered into Metro's financial accounting system, LeAP. Per MAS employees, this support was lost due to damage sustained in the August 4, 2009 flood.
- A lack of physical security over checks and cash. Checks and cash received in the business office are placed in unlocked boxes, then in a combination-locked safe at the end of the day. Per MAS employees, this is also a problem associated with the flood, and they indicated prior to the flood cash received was placed in locking cashier drawers.
- A lack of segregation of duties in the receipt function for both walk-in and mail-in payments. Mail-in payments are not logged or otherwise tracked upon receipt. Although a separate clerk enters mail-in deposits into Chameleon, the Business Specialist opens the mail, prepares the JV for entry in LeAP, endorses the checks, prepares the deposit, and at times performs the reconciliations between Chameleon, the LeAP JV, and the deposits. For walk-in customers, testing noted 17 instances in which the Business Specialist or Business Manager would collect cash or checks from walk-in customers, prepare the JV for revenue coding, prepare the deposit, and also reconcile Chameleon to the JV and deposits.
- The auditor was told receipts collected by adoption clerks were immediately taken to the drop safe as part of normal cash management procedures. However, the auditor observed an adoption receipt being placed in a desk drawer, not in the safe.

The auditors are aware that damage caused by the flood was unavoidable. MAS appropriately focused its attention to protect the animals during the flood emergency. Due to conditions existing after the flood, auditors were unable to verify that missing records were caused directly by the flooding or due to other circumstances. The effect of this missing support is that auditors were unable to determine whether deposits included all receipts collected, and were recorded and deposited accurately and in accordance with Louisville Metro policy. The weaknesses noted, regardless of cause, result in an overall increased risk to the department for theft, lost or misplaced receipts, and error.

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-25: Metro Animal Services Should Strengthen Internal Controls Over Receipts (Continued)

Proper internal controls dictate appropriate review and authorization controls, adequate safeguard of receipts and deposits, and appropriate segregation of duties over incompatible functions for cash collections, recording, deposit, and reconciliations.

Recommendation

We recommend MAS implement procedures to ensure:

- All incompatible receipt functions are properly segregated and policies are developed and implemented to improve cash processing and security.
- Chameleon Cash Checkout Sheets are signed by business or adoption clerks daily.
- JVs have appropriate supervisory review and approvals.
- All receipts are properly safeguarded when received through mail or walk-in payments. We recommend MAS acquire automatically locking cash drawers or cash registers for clerks, even for the temporary post-flood work location.
- All deposits are made timely, with the department not holding more than $1,000 in undeposited receipts in accordance with Metro cash management policies. All undeposited amounts should be processed in Chameleon daily, and deposits prepared. All undeposited funds, including those payments received too late in the day for processing, should be maintained in a locked safe.
- All employees who are involved in the receipt process through collecting walk-in or mail-in payments, recording transactions in Chameleon and/or LeAP, or reconciling deposits receive training on appropriate cash handling procedures.
- MAS Business Manager or other management staff perform cash drawer counts periodically, and document the counts by initial or signature on the Chameleon Checkout Sheet.
- MAS develop a disaster recovery plan to improve preservation of records and continuance of operations when unforeseen circumstances arise.

Management's Response and Corrective Action Plan

As discussed in comment 09-Metro-24, the auditors visit to MAS occurred after a major natural disaster on August 4, 2009. After the primary function of preserving the lives of animals in its custody was completed, the attention then turned to preserving and cleaning the facility and processing business transactions. After the flood, MAS was unable to physically touch some deposits and receipts that were affected during the flood for fears of contamination by sewage. Once a determination was made by the appropriate agency that it was safe to recover the deposits and receipts, MAS then began to dry and determine which items were in usable condition. All documents destroyed by the flood were inventoried and photographed by MAS personnel along with Metro Archives personnel for verification purposes.

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FINDING 09-METRO-25: Metro Animal Services Should Strengthen Internal Controls Over Receipts (Continued)

Management's Response and Corrective Action Plan (Continued)

A list of all documentation destroyed is on file at MAS's business office. MAS also has a locking cash box to serve the immediate cash needs of the business office. Once the facility is restored, MAS will return to using locking cashier drawers.

While the flood did contribute to some findings mentioned above, the lack of a full time business manager also contributed to issues with segregation of duties. MAS has instituted a procedure so that all Chameleon Cash Checkout Sheets are signed by the Business Office Clerk or Adoption Clerk daily. The Business Office Clerks sheet is then verified by the Business Manager or Business Specialist that day. The Adoption Clerks place their cash and sheet in a drop box at closing and verified by the Business Manager or Business Specialist the following morning. Additional training is being provided to Adoption Coordinators as there has been a 100% turnover in the Adoption division since January 2009. It is not an approved policy of MAS for deposits to be place in a desk drawer instead of the drop safe.

The MAS office is open Monday through Saturday and receives cash each day. While MAS was without a fulltime Business Manager, the Business Specialist took over the responsibility of preparing deposits. Understandably, the Business Specialist did not work Monday through Saturday and did have other time off scheduled during the period under review and this caused an issue with the timing of deposits. Subsequent to the auditors visit, a Business Manager has been hired and between the Business Manager and Business Specialist, deposits are being made daily. MAS will follow the Cash Receipts and Reconciliation section of the Cash Management Policy to ensure that cash and check receipts over $1,000 are deposited to the bank each day.

Mail in payments are primarily handled by the Animal Service Clerks, however the flood resulted in increased delay in typical lag that MAS experiences during the summer months. The Business Specialist assisted in the processing of these payments as mail in payments continued to arrive at MAS after the flood and Animal Service Clerks were focused on serving the MAS customers during and immediately after this emergency. MAS acknowledges the need for separation of duties during normal, non-emergency operations. The addition of the Business Manager and being fully staffed in other areas will eliminate this problem.

MAS currently has a disaster recovery plan in a draft stage that addresses the recommendation of the auditors.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-26: Metro Animal Services Should Improve Inventory Procedures

Metro Animal Services (MAS) does not have adequate animal inventory procedures. MAS has outgrown its building capacity and as a result, animals are housed in very crowded conditions. MAS reported that as of August 25, 2009, a total of 617 animals were housed in the current facility. The overcrowding and lack of a visible identifier on the animal such as a collar makes it difficult to identify specific animals. During our review of animal inventory internal controls, the following items were noted:

- A full inventory of animals is not performed daily as required by MAS policy;
- During FY 2009, animal inventory counts were not performed at MAS satellite locations;
- In May 2009, there were 134 animals missing per the MAS Chameleon system report titled "Outcome by Type." This report indicates animals that were recorded in Chameleon but could not be located and/or identified during the inventory process.

There is a lack of emphasis on internal controls related to animal inventory at MAS. Because of this, there is an increased risk that an animal is not properly identified when transferred to a satellite location, or when receiving medical services. Also, there is an increased risk of negative impact on MAS operations due to poor public perception caused by incomplete, inaccurate, or missing documentation of animals.

MAS Standard Operating Procedures (SOP) # 6.1 Inventory Policy, Section 4.1 states that the inventory, including the health and comfort assessment of animals, must be performed at least once a day.

Section 4.4 states that during the Kennel Inventory, the designated employee must visually inspect each animal on her/his list to obtain the following information:

- Confirm that the animal described on the kennel card is the one in the kennel or cage.
- The animal possesses the required identification (collar, tag, etc).
- The appropriate kennel card is present on the cage.
- The animal has available water and puppies and kittens or any other young animals have appropriate food and dry bedding.
- The animal isn't showing any signs of illness or injury (i.e. sneezing, bleeding, diarrhea, coughing, etc).
- The animal is comfortable, keeping in mind the shelter situation, and it is not too crowded with kennel mates considering the sizes and weights of all animals sharing the same kennel or cages.
- The designated employee must make notes in her/his notebook if something needs to be corrected, such as, but not limited to, the kennel number, kennel card, printing a new impoundment card, moving animals to other kennel or cages or completing a treatment request.

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FINDING 09-METRO-26: Metro Animal Services Should Improve Inventory Procedures (Continued)

Section 4.7 states that when the inventory is completed, that Animal Care Manager or her/his designee must review the entire inventory to address any animal not accounted for or missing to resolve the issues in a timely manner.

Recommendation

We recommend MAS improve animal inventory procedures by performing inventory counts daily at the main location and weekly at satellite locations. Discrepancies should be resolved, and corrected within the inventory system in a timely manner with sufficient descriptions to document the reason for the discrepancy.

Management's Response and Corrective Action Plan

For the time period referenced above, MAS was slotted three Animal Adoption Coordinators. At that time, one Animal Adoption Coordinator abruptly severed employment and a second was out on medical leave. This left a relatively new Animal Adoption Coordinator to handle all adoption functions and satellite operations. While the Animal Care Manager was instructed to provide assistance and training for the Animal Adoption Coordinator by the Assistant Director, this instruction was ignored and led to several operational problems. It was discovered during Metro's Internal Audit review that the new Animal Adoption Coordinator was coding animals that were adopted incorrectly. This error in the input of data by the Animal Adoption Coordinator created an inaccurate picture that a large number of animals were missing. Once this error was discovered, additional training was provided for the Animal Adoption Coordinator and all animals were accounted for.

The management of inventory was the primary responsibility of the Animal Care Manager. MAS acknowledges that the SOP stipulates that inventory be conducted daily. There was a documented history of counseling/disciplinary actions against the former Animal Care Manager, as this function was being ignored despite several warnings. This individual is no longer employed by MAS and, with the realignment of duties, the newly created position of Kennel Supervisor now has the primary responsibility for animal inventory. Inventory has not been an issue since the new supervisor took charge of the area.

In addition, the MAS management team realized that the manual method of verifying inventory was cumbersome and time consuming. MAS invested in a system which utilizes a bar code scanner system which reduced the time to complete a full inventory from 3-4 hours down to 20-30 minutes. This system, which works in conjunction with the MAS shelter management software "Chameleon," produces a report with each upload indicating which animals were not accounted for when compared to the previous upload. The result has been a tighter control on the inventory function and increased efficiency and effectiveness. MAS attempted to put collars on each animal, however they would be destroyed, by chewing or other means, and this practice

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-26: Metro Animal Services Should Improve Inventory Procedures (Continued)

Management's Response and Corrective Action Plan (Continued)

was halted. The kennel card, which is printed for each animal upon intake, contains a detailed description of each animal, the corresponding barcode number, and also a photograph. In addition to the unique identification number assigned to each animal by Chameleon, each animate is microchipped prior to being moved to a satellite location. This provides a secondary, and permanent, method of proper identification.

MAS has also instituted a physical tracking system for satellite operations to serve as a backup to the input of data into Chameleon. This system is being utilized for both the animal and paperwork/money transfer, with a copy to be kept in the office of the business manager for support and research, if necessary. A separate inventory report was created in Chameleon for each satellite, in addition to the tracking system previously mentioned, which is utilized by the Adoption Coordinators and the management team as backup. Physical inventories are completed on a weekly basis by both the management team and satellite personnel.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-27: Louisville Metro Fire Department Should Implement Procedures To Ensure Compliance With Metro's Small Purchase Policies

During internal control testing at the Louisville Metro Fire Department (LMFD), we found several invoices for furniture that appeared to be split purchases, including one invoice that was obviously altered. Splitting purchases breaks up a large purchase into smaller invoices for payment to avoid the procurement limitations. Upon investigation of the invoices noted above, the LMFD Business Office indicated they asked the vendor to alter the invoice to split this purchase to circumvent the purchasing policy for small purchases. We noted that LMFD Business Office also asked other vendors to split purchases by providing several invoices of smaller amounts instead of one invoice for the total purchase.

The LMFD Business Office split purchases to avoid the Small Purchase Policy requiring that departments use a current contract, the competitive bidding process, or the price quote method. The Business Office manager indicated she knew this was not the appropriate way to make purchases, but chose this route due to the imminent opening of two new firehouses and the need to have them furnished and equipped before the opening and dedication. Further, she researched and could not find similar quality, inexpensive furniture under a current price contract. The effect of splitting purchases is a noncompliance with Metro's small purchase policies, which are in place to obtain the best pricing and/or value for large purchases, and also ensure fair competition among vendors.

Metro's Purchasing Policy Section II Small Purchase Policy requires that for purchases between $2,500 and $10,000, departments should either use an existing contract, the price quote method or the competitive sealed bid process.

Recommendation

We recommend the LMFD Business Office implement procedures to ensure future compliance with Metro's Purchasing Policies for small purchases.

Management's Response and Corrective Action Plan

The Louisville Metro Fire Department did not follow Metro Government's approved purchasing policy. The Metro OMB will work with the department to ensure it fully understands the purchasing policy and is complying with all requirements.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-28: Louisville Metro Government Should Consistently Apply Logical Security Procedures Related To Louisville e-Financial Application (LeAP)

The fiscal year (FY) 2009 Information Technology audit of the Louisville Metro Government (Metro) revealed procedures surrounding access to the Louisville e-Financial Application (LeAP) were not being consistently followed. Users are required to complete the LeAP Financial Application Security Request Form to gain access to the application. The form includes an area containing various Departmental Responsibilities to assist the administrator in determining the type of access being requested. However, there was no guidance available providing a connection between the Departmental Responsibilities identified and the security roles that are granted within the LeAP system.

In addition, we found that, out of twelve LeAP Financial Application users tested:

- One user had a LeAP Financial Application Security Request Form on file; however, it did not specify the access requested and the Department Director did not approve the request. This user was a Database Administrator.
- Three users were granted seemingly appropriate access based on job title; however, the associated LeAP Financial Application Security Request Forms were missing the date received and the date completed, which were to be completed by the LeAP Administrator.
- One user, the LeAP Administrator, had a LeAP Financial Application Security Request Form on file and appeared to have appropriate access based on job duties; however, the Department Director did not approve this request.

Recently, the Help Desk staff was given the responsibility of resetting passwords. Though completion of the Access Request Form was required when requesting LeAP password resets, the form does not contain an option to select this action. Until the form is updated, the requestor must hand write a check box on the form indicating the resetting password function was being requested.

The auditor performed testing that revealed that 34 retired or terminated employees still had accounts established within the LeAP Financial Application. Although discussion with Metro management indicated that network access, which is deactivated upon termination or retirement, is necessary to access the LeAP application, the agency should still ensure that access for terminated users is removed in a timely fashion.

A review of the current LeAP Production Database users revealed that a listing of these users is maintained and reviewed during each Budget Development Season. However, this listing was not updated consistently to only include those users who participated in the budgeting process for the year and, therefore, needed database access during the Budget Development Season.

Allowing users the ability to access information without proper authorization may subject the processing of data to errors or omissions and may compromise the integrity of data processed through the Louisville Metro Government's network.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-28: Louisville Metro Government Should Consistently Apply Logical Security Procedures Related To Louisville e-Financial Application (LeAP) (Continued)

The foundation of logical security is access control, which refers to who and how the system was accessed. Formal policies provide a security framework to educate management and users of their security responsibilities. Consistent application of formal security policies and procedures provides continuity for implementation and establishes the tone of management concern for strong system controls. Further, the level of system access granted to users should be restricted to only areas necessary for an employee to perform assigned job duties.

Recommendation

We recommend Louisville Metro consistently apply the established logical security policies and procedures applicable to granting access to LeAP. All users requesting access to LeAP Financial should complete the LeAP Financial Application Security Request Form in its entirety, and all appropriate approvals should be documented on each form. The minimum access necessary should be requested and granted. In order to facilitate consistency when setting up LeAP Financial Application access, Metro should develop a listing with:

- Various possible job duties related to LeAP Financial access.
- Description of access on the LeAP Financial Applications Security Request Form that relate to common job duty combinations.
- Security roles within the security profiles in LeAP that are associated with each checked box on the LeAP Financial Applications Security Request Form.

The LeAP Financial Application Security Request Form should be updated to reflect all available access request responsibilities, including a request for the ability to reset passwords.

All LeAP accounts should be deactivated or deleted when employees are terminated or retire. This should be done either manually or through a direct interface between PeopleSoft and LeAP.

Further, the list of LeAP Production Database users should be updated at the onset of each Budget Development Season with only those users who will use the Public Sector Budgeting Excel Add-On feature. If, for historic purposes, past database users need to be maintained, this should be documented on a separate worksheet or spreadsheet.

Management's Response and Corrective Action Plan

Louisville Metro Government recognizes the importance of appropriate security processes for granting access to LeAP, and does have established policies and procedures in place to address these issues.

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FINDING 09-METRO-28: Louisville Metro Government Should Consistently Apply Logical Security Procedures Related To Louisville e-Financial Application (LeAP) (Continued)

Management's Response and Corrective Action Plan (Continued)

The LeAP Financial Application Security Request form is used to assign appropriate levels of access to LeAP for Metro users. It is important to note that individual Department Directors allow positions within their department to have access to varying levels of security, depending on the role of the position. Additionally, financial transactions that are keyed into the system require subsequent review an approval at various levels prior to transactions posting to the general ledger. While it is not practical to include a listing of all possible job duties on the request form; however, Louisville Metro will clarify the roles and approval levels listed on the form.

A description of the way security roles are defined in Oracle Financials can be found in the Oracle Application System Administrator's User Guide. Specific instructions for setting up security rules for a new department or a new user within an existing department can be found in the LeAP System Administrator Guide. Additional policies and procedures will be developed to ensure that the Security Request form is completed in its entirety, and appropriate authorization is obtained for each form.

When the decision was made to assign LeAP password reset responsibilities to the IT Help Desk, the staff was given their initial access to this function via the LeAP Security Request form. Metro acknowledges that there was no LeAP password reset option on the Security Request form. Therefore, for purposes of this decision, the option was written in on the form. Metro will update the form to include the password reset responsibility; however, it should be noted that this responsibility is not available to staff outside of the Office of Management & Budget or IT, and will be denoted as such on the form.

In order to address the issue of removing terminated users from LeAP, and to institute a more formal process, the LeAP team is working with the Peoplesoft team to develop an interface that would automatically end date the LeAP user access once a termination date has been populated in Peoplesoft.

Access to the budget development responsibilities is two-fold. Users are given access to a responsibility within the LeAP Financial system (PSB) and they are given direct access to the database. The direct connection to the database is to facilitate an Excel Add In called PSB Excel. This Add In allows users that have the PSB function in LeAP to be able to download budget worksheets into Excel for easy manipulation of data and then to re-upload the data into LeAP once the changes to the spreadsheet are made. The Add In will only work if the user has the direct connection to the database set up and has the PSB function on the LeAP financial application. The direct access to PSB Excel will not work if the user does not have the PSB access within the financial application and each year at the completion of the

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-28: Louisville Metro Government Should Consistently Apply Logical Security Procedures Related To Louisville e-Financial Application (LeAP) (Continued)

Management's Response and Corrective Action Plan (Continued)

budget development process, PSB responsibilities with access to the PSB excel process are disabled for use. The list of LeAP Production Database Users is comprehensive and all potential users are retained on the list for possible future involvement with the budget development process. The list is reviewed at the onset of each budget development season, and appropriate users are confirmed by the appropriate management of each Metro Department. Previous users are not given budget access unless specifically requested again by the department manager during the budget cycle. Metro will continue to maintain a comprehensive list; however, a process will be developed for the next budget season in which current year users will be identified on the list. Louisville Metro will develop a formal written procedure that will be utilized for documenting and approving access to this functionality.

Auditor's Reply

Additional review of the Oracle Application System Administrator's User Guide and the LeAP System Administrator Guide determined these documents do provide instructions on the steps to take when setting up access. However, they do not contain guidance on the type of access that should be provided to the user given their specific job responsibilities.

We, therefore, reiterate our observation that there is no documentation to link the responsibility on the request forms to the security role(s) within the system in order to ensure appropriate access is granted to users.

Our concern related to this area is that without documented procedures for determining the level of access (security role) to provide a new user based on the access request, inconsistent or inappropriate access may be granted to users. Security administration procedures should be documented and maintained to allow another employee to take over administrative responsibilities without major problems.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-29: Louisville Metro Government Should Update And Consistently Apply Documented Change Management Processes

The fiscal year (FY) 2009 Information Technology audit of the Louisville Metro Government (Metro) revealed Metro Technology Services (MTS) developed two documents to define the change management procedures for Metro: Change Management Processes and MTS Change Management Process Flow. However, review of these procedures found instances where the procedures differed from other documented processes, did not specifically address informal procedures, or were not consistently being followed.

Metro uses the Assyst tracking system to enter, process, and track requests for changes. Assyst was implemented to standardize the change control process. Metro had documented Assyst guidance notes to reflect how Assyst can be used and its functionality, but these notes did not reflect the required or standardized procedures used by Metro. However, neither the guidance notes nor the Change Management Process documents developed by MTS address:

- Criteria for making the determination of whether a change is a Request For Change (RFC) or an alternate type of change.
- Individuals responsible for approving the change request at multiple levels or the criteria for decisions on work flow.
- Requirements for monitoring change requests and current status.

A review of values and documentation in the Assyst tracking system revealed instances where corresponding information in the Change Management Process documents differed. Specifically,

- Values related to impact, urgency, and priority documented in the Change Management Process differ significantly from those noted in the Assyst application.
- The use of the fields related to the impact, urgency, and priority within the Assyst header were not addressed in the Change Management Process.
- The process to use the Assyst system for tracking the progress of a request from initiation to completion was not documented in the Change Management Process.

Additionally, during the documentation of the overall change management process, we identified instances where the formal processes were not consistently followed. Specifically,

- Requestors are expected to complete an RFC form for all requests that were classified as an RFC. A formal RFC form was not developed; the Assyst ticket was used for this function.
- Weekly Change Advisory Board (CAB) meetings should be documented with an agenda and minutes. These documents were not being developed. Instead Metro used functionality within Assyst to identify the RFCs in process for the meeting discussions instead of an agenda.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-29: Louisville Metro Government Should Update And Consistently Apply Documented Change Management Processes (Continued)

To determine whether the Change Management Process was completed as expected, we sampled and reviewed three sets of RFCs: 1) completed RFCs for FY 2009, 2) changes related to LeAP, and 3) changes related to PeopleSoft. These reviews revealed, due to inconsistently following the procedures for the completion of the priority field as defined within the Change Management Processes document, the auditor was unable to follow the progress of the requests through the process.

Finally, it was noted that the MTS Change Management Process Flow document did not include the ChM-10 process titled 'RFC Assessment Agenda', which is identified in the Change Management Process document.

Failure to keep formalized documented procedures updated increases the risk of implementing inappropriate, ineffective, or inefficient changes to systems and the risk that inaccurate, unauthorized, or incomplete data will be entered within the production environment and adversely affect system-processing results. Without complete and updated procedures and the associated forms governing the process, the risk that necessary procedures will not be consistently applied to all changes is increased.

Change control procedures should be formally documented and reviewed periodically to ensure all procedures reflect current management decisions. All procedures should be consistently applied in order to ensure that only appropriately authorized changes to critical applications are made and implemented within the production environment. All program modifications were to be monitored and thoroughly documented, with procedures established to log all program change requests, review and approval processes to be followed, and supporting documentation to be maintained for the process. These procedures should include all systems the agency is responsible to maintain.

Recommendation

We recommend Metro update formalized change management procedure documents to address current procedures. These updates should include, at a minimum,

- Use of the Assyst tracking system for tracking the progress of a request from initiation to completion;
- Definition of fields to be completed within the Assyst ticket;
- Criteria for determining the classification of changes as RFC or non-RFC s;
- Identification of requirements for monitoring all change requests and status;
- Identification of individuals responsible for approving the change request at multiple levels and the criteria for decisions on work flow;
- Documentation of the valid impact, urgency, and priority values for use in the change management process along with explanation of the values; and,
- Documentation of how the fields available on the Assyst ticket will be used to identify the impact, urgency, and priority of a change request.

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FINDING 09-METRO-29: Louisville Metro Government Should Update And Consistently Apply Documented Change Management Processes (Continued)

Recommendation (Continued)

The MTS Change Management Process Flow document should be updated to include the ChM-10 'RFC Assessment Agenda' process.

We recommend Metro consider implementing the change management procedures for all changes, not just for those designated as RFCs. Additionally, Metro should ensure all documented procedures are consistently followed for all applicable changes.

Management's Response and Corrective Action Plan

Metro Technology Services (MTS) wishes to clarify the perception that there are RFC and Non-RFC changes. All changes require an RFC. Within the Assyst program all tickets beginning with "R" are an electronic RFC form. Some of these such as password resets are standard changes that are pre-approved and require only an RFC to document the action. Others that require more planning, resources and approval will go through a more stringent process of review such as requiring assessment, going to the Change Advisory Board or being sent to the Project Management Office. It is also important to note Change Management is just one subset of an ITIL framework that has been adopted by Metro Technology Services.

The ability to electronically process RFCs and their associated work flows made manually created agendas obsolete once Assyst was implemented. Each RFC is processed individually rather than grouped with unrelated requests on a meeting agenda. As multiple changes have been approved and implemented over time, the need for a Change Control Meeting to discuss these changes has diminished.

The RFC Assessment meeting is now held as a virtual meeting. This process requires the assessor from each ITIL discipline (Change, Release, Problem, Incident, Configuration, etc.) to electronically stamp each request with approval or disapproval within the Assyst application. The accountability was greatly increased by moving to virtual meetings.

Impact, urgency and priority are addressed within the Change Management Process documentation (page 34). The Impact and urgency of changes are automatically assigned default values based on the service that the RFC affects as submitted by the requestor. This field can be changed by the requestor. As the RFC's are entered into the Assyst system and assigned to the Change Management queue, it is also the responsibility of the Change Control Manager to determine if the stated priority is appropriate for the requested change. This is denoted within the Change Management Process document:

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FINDING 09-METRO-29: Louisville Metro Government Should Update And Consistently Apply Documented Change Management Processes (Continued)

Management's Response and Corrective Action Plan (Continued)

Section 3.1.3.4.3B;
RFC priority is defined in the RFC form submitted by the requestor, so in this step, the Change Manager verifies that the stated priority is not totally inappropriate. Once the priority is determined, it is updated within the Change Log and RFC form.

RFC's cannot be created without an impact, urgency or priority being assigned. The Assyst application will not allow a ticket to be created without those criteria.

MTS will be reviewing the current Change Control documentation to clarify and update how process flows in the ticketing system and amongst personnel; however, we do not believe that any of the current practices allow for the potential of inefficient, ineffective and inappropriate changes to. In fact, the Change Management process has been beneficial in ensuring any changes are analyzed and implemented appropriately with minimal risk, if any, are introduced to the organization. RFC's are also not completed until analyzed by Release Management after Change Management, which is not reflected in the auditor's findings. Release Management includes detailed planning and documentation requirements prior to any change being "Released" into the organization.

Auditor's Reply

Due to ambiguity in the Change Management Processes documentation discussed with Metro management and the stated comment response, we are retaining the recommendation in this comment that specific criteria be developed for determining what constitutes a change requiring an RFC and the need to follow the Change Management Process.

Per Management's Response, above, Assyst will not allow a change request entry without specific fields being defined. The auditor found the values of these fields within Assyst could be multifunctional causing issues with following the progress of the request. Further, the Assyst field values did not consistently reflect the valid values noted within the Change Management Process document. Due to these inconsistencies, the audit of change requests from initiation to completion was not possible. Assyst fields should be limited to a single function and the values available for use in Assyst should specifically reflect those identified within the Change Management Process document.

Additionally, we reiterate the need for documented procedures governing the criteria to be used in determining the work flow for which changes should follow and that these procedures be consistently followed. The documentation should provide a clear delineation between the workflows based on defined criteria and should substantiate the processes that are being followed allowing an individual to follow the process from beginning to end based on the documented procedures.

Embargoed Until 9am Wednesday March 24, 2010

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-30: Louisville Metro Government Should Ensure Sufficient Authentication Is Required To Access Potentially Sensitive Information

During the FY 2009 security vulnerability assessment of machines owned by the Louisville Metropolitan Government (Metro), we discovered instances where no authentication was required to allow an outside user to gain access either to information about the machine or to the service running on a designated port. We determined that 17 out of the 500 machines scanned, or approximately 3.4 percent of the population, did not have sufficient authentication enabled on one or more ports. A remote access service appears to be active on 11 machines. This service allows remote execution of shell commands.

For security purposes, detailed information that would identify the specific machines contributing to these findings is being intentionally omitted from this comment. However, these issues were thoroughly documented and communicated to the appropriate agency personnel.

If a machine is allowed to provide excessive information associated with the machine to an anonymous user, then an intruder could potentially use this information to attempt to gain access to the machine or network. The use of unsecured transmission programs increases the risk of compromised data transmissions.

Only necessary and required users should have access to services, particularly those services containing potentially sensitive information.

Recommendation

We recommend Metro review the services noted within this comment to ensure that they are properly configured to ensure only authorized users gain access. If a service is determined not to have a specific business purpose, it should be disabled. For those services that do have a business purpose, authentication features should be reviewed to ensure that they are configured to restrict access to only users who have a need for the service. If determined necessary, the remote shell suite of programs should be replaced by a more secured shell suite.

Management's Response and Corrective Action Plan

- *All devices within this finding were found to be network printers.*
- *Metro Technology Services agrees that these devices need to be secured but also feels these are low priority devices with minimal risk from being exposed.*
- *R31057 has been submitted to evaluate this and other print devices on the Louisville Metro network in coordination with a third party vendor of which these devices are leased and placed within Louisville Metro facilities.*

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-31: Metro Revenue Commission Employee Transfers Should Be Executed On A Timely Basis

During the review of the accrued vacation pay liability, it was discovered that an employee who transferred to Louisville/Jefferson County Metro Government's Finance Department on approximately October 13, 2008 was included in the June 30, 2009 accrual calculation for the Metro Revenue Commission. Per further investigation, it was noted that the employee's salary and benefits were still being paid by the Metro Revenue Commission. Section 17.3 of Metro's Personnel Policy states a Position and Personnel Action Form be submitted to Human Resources within three workdays of the transfer. It is our understanding that when a transfer is not completed, the new supervisor is not able to approve time worked. The employee's timesheets were not being approved by the Finance Department until approximately September 25, 2009.

Recommendation

We recommend employee transfers be made on a timely basis as prescribed in the personnel policies. We also recommended Louisville/Jefferson County Metro Government reimburse the Metro Revenue Commission for the employee's salary and benefits that were incorrectly charged.

Management's Response and Corrective Action Plan

The Metro Revenue Commission has policies in place outlining the procedures for employee transfers. Metro Revenue Commission completed its portion of the transfer paperwork with the prescribed time frame.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-32: Metro Internal Audit Should Expedite The Investigation Of Apparent Fabricated Invoices Processed By Metro Department Of Neighborhoods Over Multiple Fiscal Years

During our FY 2009 audit of accounts payable, transactions selected for testing included an invoice submitted by Metro Department of Neighborhoods in the amount of $15,000. During FY 2009, Metro Department of Neighborhoods was responsible for neighborhood outreach and organizing community events. This agency housed the divisions of Brightside, Community Outreach, Office of International Affairs, MetroCall and the Mayor's Special Events Office, and in FY 2009 was funded primarily through the General Fund. In requesting the supporting documentation for this transaction, we were notified that the documentation was under review by Metro Internal Audit. Upon contacting Metro Internal Audit, we were made aware that the invoice appeared to be fabricated because it did not match the appearance of other invoices submitted by the vendor. Furthermore, additional evidence indicated instances in which several other vendor invoices processed by the Metro Department of Neighborhoods also did not match the vendor's standard invoice. All of the questionable invoices look basically the same with the exception of the vendor's logo, which had been copied onto the invoice in most cases.

Evidence indicates that 36 invoices from 15 separate vendors processed between July 1, 2007 and June 30, 2009 appear to be created by someone other than the vendor. These 36 invoices were approved for payment, generating checks to the 15 vendors totaling $368,660. Because investigations by Metro Internal Audit and Metro Public Integrity are not yet complete, there is a potential that other invoices have been handled in this manner and not yet detected.

Also, a review of the documentation indicates that one of the 15 vendors was a business owned by an employee of the Metro Department of Neighborhoods. Evidence suggests this vendor was paid $14,900 over three fiscal years. One of the three payments making up the $14,900 paid to this vendor is included in the 36 questionable invoices identified above. This raises concerns of a possible conflict of interest, especially since the payment is not supported by valid, detailed documentation to justify the purchase.

Due to the nature of the concerns raised by this information, Metro Internal Audit suspended its review and submitted the documentation to Metro Police Public Integrity Unit. The APA deferred its investigation and communication of this matter several weeks to avoid interfering in the preliminary stage of an investigation.

The auditors did not perform procedures beyond a review of evidence gathered in ongoing investigations, and therefore were not able to ascertain the cause for, or source of, the questionable invoices. Evidence exists indicating these invoices may represent prepayments or deposits to vendors for upcoming events and future services. However, if prepayments or deposits were required, it is unclear why the invoices were not generated by the vendor.

Also, due to the similarity of the invoices in question, there is indication that the invoices were likely created by department personnel. The creation of invoices by agency personnel is an extremely poor business practice which increases the risk of fraud, misappropriation, and accounting errors such as authorization for duplicate payments for the same service. Although on rare occasions there may be a

FINDING 09-METRO-32: Metro Internal Audit Should Expedite The Investigation Of Apparent Fabricated Invoices Processed By Metro Department Of Neighborhoods Over Multiple Fiscal Years (Continued)

practical business need to pay deposits or prepayments on certain services, those payments should be supported by valid supporting documentation.

Furthermore, the payments made to a business co-owned by a department employee constitute a related party transaction at a minimum. Related party transactions in and of themselves are not illegal, but there is an increased risk of unethical behavior which should be mitigated by full disclosure and transparency. The failure to fully itemize the payments on the business's standard invoices only increases this risk.

The weaknesses noted above indicate an extremely high risk of unethical business practices. Whereas there may be legitimate business needs for prepayments and deposits, all payments for goods and services should be evidenced through valid supporting documentation obtained from the vendor or evidenced through contractually scheduled payments. This supporting documentation should be of sufficient detail for identifying the business purpose of the payment.

Recommendation

We recommend Metro Internal Audit complete its review of this matter to ascertain the cause and extent of the invoicing practice noted, and to fully investigate the conflict of interest identified. We further recommend that Metro Internal Audit's report be referred to the Auditor of Public Accounts for review upon completion, and also to Metro Public Integrity for determination on whether additional investigation is warranted.

We further recommend Metro Office of Management and Budget immediately prohibit this practice, and communicate the prohibition to all Metro departments. Furthermore, Metro Office of Management and Budget should train accounts payable employees on detecting potentially fabricated pay documents, and reiterate procedures for reporting questionable items so they may be reviewed.

Management's Response and Corrective Action Plan

As the auditors noted, this is an ongoing investigation of the Office of Internal Audit (OIA) and the LMPD Public Integrity Unit (PIU). As the information listed above is currently held by OIA and PIU, we do not have the complete information to respond in full to the comment above. However, any failure to follow established procedures by staff will be addressed by additional training, increased supervision and / or discipline as deemed appropriate and necessary by management. Once the OIA and PIU investigations are complete, we agree that the findings should be reviewed by the Auditor of Public Accounts and we pledge to take any additional corrective action necessary.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-32: Metro Internal Audit Should Expedite The Investigation Of Apparent Fabricated Invoices Processed By Metro Department Of Neighborhoods Over Multiple Fiscal Years (Continued)

Management's Response and Corrective Action Plan (Continued)

OMB does prohibit the practice of using any non-vendor generated invoices. OMB provides training and operational guidance to departments regularly, including information on invoice processing. Only original invoices, or an authorized copy if the original is destroyed or lost, may be submitted for payment.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-33: KentuckianaWorks Should Implement Controls To Ensure Direct Grant Charges Are Traceable Between LeAP And The SEFA

This finding is a significant deficiency/material weakness relating to internal controls and/or noncompliance of a major federal award program. See Schedule of Findings and Questioned Costs, Section 3 - Federal Award Findings, **FINDING 09-METRO-59** for discussion of this finding.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-34: Metro Public Works Should Pay Invoices In Accordance With KRS 65.140 And Should Implement Procedures To Improve Its Cash Management

This finding is a significant deficiency/material weakness relating to internal controls and/or noncompliance of a major federal award program. See Schedule of Findings and Questioned Costs, Section 3 - Federal Award Findings, **FINDING 09-METRO-63** for discussion of this finding.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-35: Metro Public Works Should Implement Procedures To Ensure Grant Charges In LeAP Are Accurate And Traceable To Valid Supporting Documentation

This finding is a significant deficiency/material weakness relating to internal controls and/or noncompliance of a major federal award program. See Schedule of Findings and Questioned Costs, Section 3 - Federal Award Findings, **FINDING 09-METRO-44** for discussion of this finding.

SECTION 2 - FINANCIAL STATEMENT FINDINGS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-36: Metro Public Works Should Implement Policies And Procedures To Ensure Adequate Supporting Documentation For JV Transactions

This finding is a significant deficiency/material weakness relating to internal controls and/or noncompliance of a major federal award program. See Schedule of Findings and Questioned Costs, Section 3 - Federal Award Findings, **FINDING 09-METRO-66** for discussion of this finding.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-37: Metro Housing And Family Services Should Continue Its Corrective Action To Improve Its Fiscal Management

Federal Program: CFDA 14.218 Community Development Block Grants/Entitlement Grants
CFDA 14.238 Shelter Plus Care
CFDA 14.239 HOME Investment Partnerships Program
CFDA 93.568 Low-Income Home Energy Assistance
CFDA 93.569 Community Services Block Grant
Federal Agency: U.S. Department of Housing and Urban Development
U.S. Department of Health and Human Services
Compliance Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Amount of Questioned Costs: $0

A prior year finding noted that the management and staff at the Metro Department of Housing and Family Services (HFS) did not have an understanding of its grant programs, did not provide staff direction, and did not provide proper oversight of procedures and processes. A significant example noted was that management did not follow proper procedures for personnel charges. HFS management did not make appropriate changes in PeopleSoft, but instead used journal vouchers (JVs) to move payroll expenses from one grant or cost center to another.

In following up on this finding during the FY 2009 audit, we noted that management has taken measures toward improving controls by replacing some staff and providing training to existing staff. Although we recognize these improvements, many of the changes were made at the end of fiscal year, thereby having the weaknesses noted in the prior year existing for much of the fiscal year under audit. Specifically, we noted the continued use of journal vouchers during the year for the following HFS grants: Community Development Block Grant (CDBG), Community Services Block Grant (CSBG), LIHEAP, HOME Investment Partnership Program, and Shelter Plus Care.

Due to the failure to direct code grants staff to the appropriate cost centers, thereby creating the need for JV transfers to move payroll expenses, there is an increased risk of errors or noncompliance since it is difficult to determine that employee time was charged appropriately. There is also the risk that grant expenditures reimbursed by the federal government can be erroneously drawn down, or reimbursed twice for the same charges. Furthermore, we have determined that of the federal grants listed above, due to the dollar magnitude of the transactions during FY 2009, there is a material impact for CDBG, CSBG, and Shelter Plus Care grants.

As noted in the prior year, a strong internal control function should exist along with a management team that understands those controls. Management should also understand the applicable grant requirements and the policies and procedures necessary to manage the day-to-day operations, including those controls necessary to ensure grant expenditures are appropriate.

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Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-37: Metro Housing And Family Services Should Continue Its Corrective Action To Improve Its Fiscal Management (Continued)

Recommendation

We recommend HFS continue to ensure appropriate, knowledgeable staff is placed in the correct positions. Also, we recommend HFS continue to make improvements to ensure PeopleSoft has been updated to reflect the correct cost center for each employee. This should eliminate the use of JVs to move payroll expenses between cost centers and grants. HFS management should restrict the use of JVs to non-routine transactions and require proper approval by management and the Office of Management and Budget.

Management's Response and Corrective Action Plan

HFS continues to ensure that employees are supported in their roles by identifying training opportunities and providing appropriate supervision. Recognizing the significant work necessary to correct past performance issues throughout the department, two of HFS's goals for fiscal year 2009 were: 1) ensuring employees knew the requirements of their position and were able to meet those requirements and 2) to improve processes and procedures across the board to correct known deficiencies before the end of the fiscal year. HFS is pleased to note that these efforts, while still ongoing, were recognized by the audit findings. HFS's commitment to training can be seen in Appendix B, Attachment A, which lists the training sessions attended by HFS employees over the past fiscal year that are specifically targeted for HFS's grant programs. HFS will continue to identify and send employees to training opportunities that further the mission of the department.

The HFS Business Office has updated PeopleSoft cost center distributions for each employee to ensure employees are coded to the correct cost centers within the department. The department's position control report, which lists the location and cost center information for all employees, is also continually updated. In addition, an employee listing is provided to division managers each month. This listing shows each employee cost center distribution and division managers are asked to verify that employees are correctly coded. Finally, grant expiration dates are monitored to ensure that any changes in cost centers for employees are processed timely. These reviews enable HFS to make any changes to an employee's cost center in a timely fashion.

HFS is required to follow all of the policies and procedures of the Office of Management and Budget ("OMB"). OMB policies dictate that all journals be reviewed and approved by OMB before they are processed. While an occasional correcting entry may be needed, the processes listed above reduce the need for journal entries to move personnel expenses or other operational expenses between cost centers. HFS and OMB will work together to ensure that journals processed for routine transactions have appropriate documentation and are necessary entries.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-38: Metro Housing And Family Services Should Submit Accurate Performance Reports For CDBG And HOME

Federal Program: CFDA 14.218 Community Development Block Grants/Entitlement Grants
CFDA 14.239 HOME Investment Partnerships Program
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Reporting
Amount of Questioned Costs: $0

During the FY 09 audits of the Community Development Block Grant and HOME Investment Partnership Program (HOME), we reviewed the HUD 60002, Section 3 Summary Reports, which are required performance reports for these two grants, submitted by Metro Department of Housing and Family Services (HFS) to the U.S. Department of Housing and Urban Development (HUD). We noted the following during our review:

- The HFS staff person responsible for submission of these reports was not knowledgeable of the programs' reporting requirements or knowledgeable enough about the supporting data to ensure accurate performance reporting;
- The reports were not submitted by the due date, and were then only submitted upon HUD's request;
- The supporting worksheets used to complete the reports were not well organized or summarized, which made it difficult to determine if they were complete and accurate;
- The HOME report was incorrect and did not include all necessary information; and
- HFS was not compliant with federal program requirements that require these performance reports be submitted for each project over $200,000.

We also reviewed the HOME Program Annual Performance Report, which is submitted with the CAPER, and found it was not supported by Metro's financial accounting system, LeAP. A total of $3,362,254 in program income was reported as balance on hand at the end of the reporting period. However, Metro Finance does not have an accumulation of program income recorded in the accounting system. This noncompliance was also noted in the prior year's audit.

Due to staff turnover at HFS, the staff person preparing the HUD 60002, Section 3 Summary Reports for HOME and CDBG was not knowledgeable of the reporting requirements or due dates for submission to HUD. Since the reports were not completed accurately, they cannot be relied upon by HUD or other users to assess HFS's performance related to CDBG or HOME programs. Also, the continued inaccurate reporting of cumulative program income on the HOME Annual Performance Report is a result of HFS's need to communicate with HUD to determine how to adjust this correctly.

Per OMB Circular A-133, Part 4, related to CFDA 14.218: HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* (*OMB No. 2529-0043*) - for each grant over $200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-38: Metro Housing And Family Services Should Submit Accurate Performance Reports For CDBG And HOME (Continued)

According to OMB Circular A-133, recipients shall submit performance reports at least annually. Performance reports generally contain information related to accomplishments of goals and objectives and other pertinent information about project costs. These reports should be supported by the entity's financial system and be prepared by persons knowledgeable of grant requirements.

Also, good internal controls dictate that reports should be prepared by a knowledgeable staff person and reviewed by management to ensure federal compliance requirements are met and that the report information is supported by the accounting system detail for the time period specified.

Recommendation

We recommend HFS adhere to HUD requirements by:

- Completing a HUD 60002, Section 3 Summary Report for each CDBG and HOME program over $200,000 that involves housing rehabilitation, housing construction, or other public construction;
- Communicating with HUD to determine the correct adjustment necessary to accurately report program income on the HOME Program Annual Performance Report;
- Maintaining clear, concise, summarized supporting worksheets and calculations to ensure correct reporting of performance measures required by HUD
- Maintaining evidence of supervisory review of the reports; and
- Ensuring timely submission of the reports to HUD.

Management's Response and Corrective Action Plan

The HFS Grants Planning, Compliance and Monitoring Unit reviews the guidelines set forth for all of the department's grants and has established a tickler system to ensure that required reports are completed timely and accurately. HFS will continue to refine this process and ensure staff receives the appropriate training and support to complete their tasks.

According to the Section 3 Requirements set forth by the HUD Office of Fair Housing and Equal Opportunity (see Appendix B, Attachment D), each CDBG- and HOME-funded project does not require the submission of a HUD 60002 report. One cumulative report is required annually for all eligible contracts funded through CDBG funds. A separate report must be submitted annually for HOME funds. In order to prepare the summary report, the HFS Grants Planning, Compliance, and Monitoring Unit requires each CDBG- and HOME-funded project throughout Metro to complete a HUD 60002 Section 3 report. The data from each report is accumulated and transferred to the official report to be submitted to HUD. The method for compiling the information to be reported on the report has been revised to ensure efficiency and accuracy. Metro Government will continue to work closely with the HUD Office of Fair Housing and Equal Opportunity to ensure understanding of Section 3 reporting requirements and timely submission of reports.

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FINDING 09-METRO-38: Metro Housing And Family Services Should Submit Accurate Performance Reports For CDBG And HOME (Continued)

Management's Response and Corrective Action Plan (Continued)

During fiscal year 2009, the report for HOME did not include the contracts awarded under the HOME Repair Program, renamed the Residential Rehabilitation Program. Both the CDBG and HOME reports have been corrected and resubmitted to HUD as of March 5, 2010. Additionally, HFS will continue to research the difference in program income reported on the HOME Annual Performance Report and will notify HUD of any necessary corrections to the report.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-39: Metro Housing And Family Services Should Comply With TBRA Requirements For Housing Quality Inspections And Should Ensure Employees Are Aware Of Conflict Of Interest Policies

Federal Program: CFDA 14.239 HOME Investment Partnerships Program
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Special Test and Provisions
Amount of Questioned Costs: $0

During the FY 2009 audit of the HOME Tenant Based Rental Assistance (TBRA) program, we noted the following:

- Auditors became aware that a Metro Department of Housing and Family Services (HFS) employee's family member was a recipient of TBRA. A prior audit finding indicated this same employee worked on her brother's TBRA case. Both the current year and prior year cases were processed without the HFS Supervisor being notified of the family relationship. Although HFS has a current policy in place requiring employees to disclose any conflicts of interest, the employee did not disclose this relationship.
- Of 39 TBRA case files examined for compliance with federal regulations, we found 17 files in which annual Quality Housing Inspections re-inspections were either not completed or not completed timely. The case files either did not have an inspection documented in the file (noted in four cases), or the inspection was performed very late (noted in four cases). In nine instances, the home failed the inspection and no re-inspection has been performed to date.

Subsequent to FY 2009, HFS assigned additional staff to the TBRA program, documented policies and procedures for administration of the program, and implemented computerized tracking of TBRA clients. These actions should improve internal controls over this program. However, more progress needs to be made to ensure compliance with federal regulations.

The employee conflict of interest is due to a failure of the employee to follow current policy to notify supervisors of relationships with program participants. Without this notification, it is difficult for supervisors to provide the appropriate oversight needed to ensure employees do not work on cases with which they have a conflict of interest.

Because of the lack of staffing and use of paper files and spreadsheets instead of an electronic tracking system, there was no system in place to notify TBRA staff members when re-certifications/re-inspections were due. Lack of timely re-inspections caused the TBRA program to be noncompliant with grant requirements.

Conflicts of interest are prohibited by federal regulations and are described in federal regulations as someone who exercises any functions or responsibilities with respect to activities assisted with HOME funds, or are in a position to participate in a decision-making process or gain inside information with regard to these activities may obtain a financial interest or benefit from a HOME-assisted activity, or have an interest in any contract, subcontract or agreement with respect thereto, or the proceeds

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-39: Metro Housing And Family Services Should Comply With TBRA Requirements For Housing Quality Inspections And Should Ensure Employees Are Aware Of Conflict Of Interest Policies (Continued)

thereunder, either for themselves or those with whom they have family or business ties, during their tenure or for one year thereafter.

According to OMB Circular A-133, Compliance Supplement, Part 4 "The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards (24 CFR sections 92.251, 92.252, and 92.504(b))."

Recommendation

We recommend HFS continue to implement stronger internal controls over the TBRA program to ensure compliance with federal regulations, including:

- Reiterating the necessity of employees disclosing any conflicts of interest to HFS supervisors, and clarifying disciplinary actions for employees who fail to disclose such conflicts; and
- Implement procedures to ensure all Housing Quality Inspections are completed timely, and that re-inspections are scheduled timely, such as within 2 weeks of a failed inspection.

Management's Response and Corrective Action Plan

During fiscal year 2009, all employees of HFS were required to review ethics and conflict of interest policies. This review is evidenced by their individual signatures indicating that they have read and understand the policies. A copy of the policy and signature page is included in Appendix B, Attachments F and G. The policies have been explained with an opportunity for questions at every individual team meeting.

Procedures are now in place to ensure that inspections occur in a timely manner. Each lease date is recorded with the applicable due dates on a spreadsheet maintained and reviewed by supervisors. An additional supervisor, two housing specialists, two social workers, an additional inspector and clerical support have been added to the SPC HOME team to make caseloads manageable. Each member of the staff has been trained on their job requirements and they receive weekly reviews of caseloads to ensure ongoing compliance with established procedures and grant requirements. Failure to follow established procedures by the staff is addressed by additional training, increased supervision and/or discipline as deemed appropriate and necessary by HFS management.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-40: Metro Housing And Family Services Should Ensure Only Allowable Costs Are Included In Reimbursement Draw Down Requests

Federal Program: CFDA 14.239 HOME Investment Partnerships Program
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Cash Management
Amount of Questioned Costs: $0

During FY 2009, the Department of Housing and Family Services (HFS) did not properly follow cash management requirements for the HOME grant. As noted in the prior year audit, we found expenditures initially posted to HOME funds in the financial accounting system, LeAP, were drawn down from the federal tracking system, IDIS, and then subsequently transferred to different funds within LeAP. This transfer of expenditures after reimbursements were requested created a revenue balance in the original HOME accounts, in effect creating accounting balances indicating grant funds were actually drawn down in advance of the programmatic expenditures instead of on a reimbursement basis per the grant requirements.

One example noted by the auditor was numerous Shelter Plus Care expenditures incorrectly coded to HOME accounts. HOME funds were then drawn down to reimburse the HOME program. However, several months later, the Shelter Plus Care expenditures were moved by journal voucher to the correct accounts and included in reimbursement requests for that program as well, thereby drawing down funds from two grants for the same expenditures. The HOME funds drawn down in error were not returned to the federal treasury per grant requirements. Instead, current expenditures were applied against the excess funds drawn down.

Also, as noted in the prior year audit, we saw evidence that payroll-related expenditures were still being moved by journal voucher between general fund accounts and grant accounts during the 2009 fiscal year without appropriate supporting documentation to support the allowability of these transfers. HFS staff indicated they were able to determine which staff work full time on the HOME grant and code those employees so that their payroll related expenses were charged directly to the HOME grant accounts starting in July 2009, which should alleviate this problem in future years.

Although a supervisory review of expenditures is completed by HFS Business Office before funds are drawn down, the Shelter Plus Care expenditures were incorrectly charged to HOME for several consecutive months. Also, grant related payroll was not coded directly to the grant, but moved by journal voucher after the fact. As a result, funds continued to be drawn down from the HOME grant for unallowable expenditures in FY 2009.

Because HOME is a reimbursement grant, requests for reimbursement prior to incurring allowable expenditures is not allowed. Grant requirements dictate that funds be returned to the federal treasury if not spent within fifteen days. [24 CFR Part 92.502c]

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FINDING 09-METRO-40: Metro Housing And Family Services Should Ensure Only Allowable Costs Are Included In Reimbursement Draw Down Requests (Continued)

Recommendation

We recommend HFS continue to develop procedures to ensure that only HOME related expenditures are charged to HOME grant accounts in order to decrease the likelihood that unallowed expenditures are included in reimbursement draw down requests. We also recommend improved supervisory review of supporting information for draw downs and additional account analysis of grant funds coded in LeAP to minimize the potential for errors.

Management's Response and Corrective Action Plan

Under the direction of HFS Business Office personnel in place at the beginning of fiscal year, rental payments for Shelter Plus Care (SPC) grants for which cost centers had not been set up were paid from the HOME General Fund Match account and HOME TBRA account. Once the errors were discovered, journal entries were made to correct the miscoded items. To eliminate the possibility that this error could be repeated, appropriately trained HFS Business Office staff will establish cost centers for the various grants prior to expenditures being made and will continue to verify that payments are posted to the correct accounts prior to any draws being requested.

The journal entries transferring personnel expenses from the general fund to the respective grant accounts were processed based upon a review by HUD in order to draw down allowable administrative expenses for the grants. The journal vouchers were submitted to OMB with supporting documentation to enable tracking of personnel expenditures as needed. In addition, the monthly draw requests included the personnel documentation verifying the expenditures for grant reporting purposes.

The HFS Business Office continues to work with OMB Grants Management Division to follow the established Expenditure Verification and Drawdown Policies and Procedures (Appendix B, Attachments J and E) to ensure expenditures are reviewed and approved by appropriate program staff and made in a timely fashion.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-41: Metro Housing And Family Services Should Continue To Strengthen Cash Management, Matching, And Earmarking Controls Over Shelter Plus Care Program And Take Appropriate Action To Ensure Program Funds Are Not Forfeited

Federal Program: CFDA14.238 Shelter Plus Care
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Matching, Level of Effort, Earmarking; Cash Management
Amount of Questioned Costs: $0

During the testing of compliance with cash management, matching, and earmarking requirements for the Shelter Plus Care (SPC) Program, it was noted that the Metro Department of Housing and Family Services (HFS) did not maintain proper oversight and management of grant awards. The auditor tested three SPC grant awards and noted deficiencies regarding the timeliness of submitted reimbursement requests, matching requirements that were not met, earmarking allowances that were not fully utilized, and unused grant funding which was forfeited back to Housing and Urban Development (HUD).

Also, a separately issued finding identified that SPC miscoded rental assistance payments to the wrong fund for over half of the fiscal year. Although journal vouchers were processed beginning in January 2009 to correct the erroneous transactions identified by the business office, the department's internal controls did not detect the errors for more than six months. Due to the coding errors, SPC did not begin submitting reimbursement requests until January 2009 for FY 2009 grants. Therefore, the auditor noted numerous instances of reimbursement requests submitted for rental assistant payments made several months earlier, including:

- a request dated November 2008 for August 2008 payments;
- a request dated January 2009 for October 2008 payments;
- a request dated April 2009 for November 2008 payments; and
- a request dated July 2009 for March through June 2009 payments.

The auditor also noted that SPC was not properly accounting for the program's administrative costs, such as payroll. SPC is allowed reimbursement for 8% of each grant award for administrative costs. As noted in the prior year audit, these allowances were again not properly utilized during FY 2009. For the three grants tested, the agency forfeited the opportunity to receive reimbursement for $26,807 in administrative cost to oversee the program because of the lack of appropriate oversight of the grant activities.

Also, SPC is required to meet a dollar-for-dollar matching requirement in supportive services. Each landlord that participates in this program should provide supportive services to the clients in a dollar-for-dollar match of funds they receive from this program. The auditor noted that in one grant, there was a $79,012 deficit between the amount awarded in the grant and the amount of supportive services that were required to be offered.

Finally, the auditor noted that due to the lax oversight, grant awards were forfeited during FY 2009. Of the three grants tested, $167,916 in grant awards were forfeited back to HUD. These are grant funds that could have provided additional assistance to clients in need of these services.

Embargoed Until 9am Wednesday March 24, 2010

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-41: Metro Housing And Family Services Should Continue To Strengthen Cash Management, Matching, And Earmarking Controls Over Shelter Plus Care Program And Take Appropriate Action To Ensure Program Funds Are Not Forfeited (Continued)

Based on the weaknesses identified above, it appears that weaknesses in the fiscal and programmatic management of the program continued into FY 2009. Although the HFS business office began identifying and correcting problems in the second half of the year, the weaknesses ultimately led to the underutilization of program funds for administration, noncompliance with matching requirements, and ultimately the forfeiture of federal funds that could have assisted clients in need.

Sound internal controls dictate that procedures be implemented to ensure that reimbursement requests submitted, as well as the related expenditure transactions, are accurate, properly supported, thoroughly reviewed, and processed in a timely manner.

Also, 24 CFR section 582.110 outlines the SPC matching requirement and how supportive services are calculated. The OMB Compliance Supplement for the SPC program states, “A grantee must provide or ensure the provision of supportive services that are at least equal in value to the aggregate amount of rental assistance funded by HUD.”

Finally, 24 CFR 582.105 outlines the Earmarking requirement, up to 8% of the grant amount may be used to pay the costs of administering housing assistance.

Recommendation

The auditor noted that HFS implemented procedures after the prior audit to improve controls over the program. However, we recommend HFS continue to strengthen controls over this program to ensure all program benefits are maximized. Specifically, we recommend HFS:

- Implement adequate controls to ensure that all reimbursement request are properly reviewed prior to submission to ensure accuracy, and are submitted in a timely manner;
- Implement procedures to ensure that administrative earmarking limits are met, which may increase funding for staffing and oversight to help ensure the programs objectives are met;
- Improve controls over matching to ensure compliance with SPC program requirements and ensure SPC clients are receiving the full benefits of the program;
- Continue to improve programmatic and fiscal management to ensure funds do not get forfeited back to the grantor.

Management’s Response and Corrective Action Plan

The HFS Business Office continues to work with the OMB Grants Management Division to follow the established Expenditure Verification and Drawdown Policies and Procedures (Attachments K and E) to ensure expenditures are reviewed and approved by appropriate program staff and made in a timely fashion.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-41: Metro Housing And Family Services Should Continue To Strengthen Cash Management, Matching, And Earmarking Controls Over Shelter Plus Care Program And Take Appropriate Action To Ensure Program Funds Are Not Forfeited (Continued)

Management's Response and Corrective Action Plan (Contineud)

Separate cost centers have been established in the Human Services operating budget to ensure the administrative allocation of 8% for the SPC grants is expended and drawn down accordingly. PeopleSoft is utilized to distribute the percentage allocations to ensure personnel expenses are posted according to the time spent by staff on the respective grants. Program Managers review the personnel distributions periodically to ensure any changes in job assignments are adjusted on PeopleSoft as needed.

To ensure that matching requirements for the SPC grants are being tracked and documented in a timely fashion the following procedures have been implemented:

- *HFS has completed preliminary match training with the provider agencies in conjunction with HUD and the Continuum of Care. Additional training is planned for spring 2010, including technical assistance from HUD.*
- *SPC staff reviews match documentation quarterly. Any issues that may arise will be resolved with individual agencies.*
- *As part of the normal monitoring schedule, HFS staff reviews supporting documentation at provider sites to ensure compliance with regulations.*

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-42: Metro Public Works Should Improve Its Fiscal Management Of FEMA Disaster Grants

Federal Program: CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Amount of Questioned Costs: $0

During our audit, we noted numerous noncompliances and significant weaknesses in internal controls related to the administration of the Public Assistance Grants (CFDA 97.036). Examples of deficiencies noted included a lack of oversight and review of project worksheet (PW) computations and reimbursement rates, lack of appropriate supporting documentation for expenditures, failure to ensure contractors are meeting procurement, suspension and debarment requirements, multiple instances in which rates paid to contractors weren't in compliance with contractual rates or weren't properly documented, and significant grant accounting problems in which charges used as support for PWs could not be reconciled to the grant accounting detail in the government's financial accounting system, LeAP. These weaknesses, which indicate overall lax fiscal management of these federal awards, have been presented in more detail in separate findings.

Also, we requested supporting documentation for the amount of disallowed costs identified by the Kentucky Emergency Management (KyEM) review of project worksheets (PWs) prepared for Metro's Public Assistance Grants (CFDA 97.036). The auditor obtained correspondence identifying disallowed costs of $5,360,779 noted during the review. The federal share of these disallowed costs is 75% or $4,020,584. KyEM identified the following justifications for reducing costs initially reported on the PWs:

- Debris removal contract and debris collection site restoration costs were determined to be higher than reasonable costs;
- Reductions in the direct administration costs were necessary due to inaccuracies in either the benefit rate or hourly rate; and
- One PW was ineligible as the repairs were made necessary due to the lack of normal maintenance or negligence.

Metro Public Works lacked adequate internal controls in determining necessary and reasonable costs associated with its federal grant funding. Also, based on the results of the KyEM review, it appears that there was also a lack of a prudent review in authorizing expenditures that were out of line with reasonable expectations. The numerous significant weaknesses noted throughout the audit and the results of the KyEM review indicate the government's difficulty in responding to rapidly changing circumstances, as is common with the types of disasters that trigger Public Assistance Grants funding. This may be a result of the lack of consistent policies and procedures related to administration of disaster grants.

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Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-42: Metro Public Works Should Improve Its Fiscal Management Of FEMA Disaster Grants (Continued)

Failure to ensure that all supporting documentation is properly maintained and all costs are necessary and reasonable in applying federal funds to a project could lead to noncompliances, and ultimately lead to disallowed costs. Unresolved disallowed costs may limit the amount of federal reimbursement anticipated, which places a greater financial burden on the government's own resources.

Sound fiscal management dictates that controls are in place to ensure expenditures are adequately supported with appropriate documentation and are necessary and reasonable to carry out the function intended.

Also, proper grants management dictates that costs applied against federal grant funding be allowable per the grant award, or PW in the case of Public Assistance Grants. Louisville Metro has sixty (60) days to appeal any disallowed costs identified by KyEM.

Recommendation

We recommend Metro Public Works strengthen internal controls over its administration of Public Assistance Grants to ensure that all costs requested for reimbursement are necessary and reasonable for the project, and are properly supported to ensure compliance with federal requirements. We also recommend Metro Public Works implement the recommendations presented in the separately issued findings related to Public Assistance Grants, and incorporate those into an overall plan to improve the effectiveness of its grants management of these funds. Additionally, we recommend Metro work with KyEM within any open appeals window remaining to try to clear deficiencies identified during its review.

Management's Response and Corrective Action Plan

PWA and Metro Government, respectfully, takes issue with the auditors finding. As explained to the auditor, FEMA does not define reasonable costs at the beginning of the eligible disaster period. PWA may not know what reasonable costs are (as defined by FEMA) until after expenditures have been incurred. PWA works very closely with FEMA during the disaster period and, in many cases, costs included for reimbursement were included at the direction of FEMA agents. Metro Government is currently appealing the dismissal of expenditures under the "reasonable cost" issue noting that 1) FEMA does not use published labor and economic data from the Federal Department of Labor to apply to an urban area, 2) FEMA does not consider Federal EPA regulatory rules that forced us to landfill vegetative debris versus open burning which was used in adjacent counties to avoid landfill costs, and 3) that FEMA did pay for PWA equipment damaged during Hurricane Ike but when the same claim was made on equipment damaged during the February 2009 ice storm, FEMA denied the expense. FEMA acknowledges disallowed costs are subject to a multi-step appeal process where evidence is considered that explains why Metro Louisville's costs are greater than experienced in rural settings.

FINDING 09-METRO-42: Metro Public Works Should Improve Its Fiscal Management Of FEMA Disaster Grants (Continued)

Auditor's Reply

The auditor understands that governments incur costs associated with a disaster prior to having an approved FEMA project worksheet. However, the costs submitted for reimbursement should be necessary and reasonable, and should be within the approved scope of the project worksheet. The auditor acknowledges Metro is in the appeals period for some of the disallowed FEMA costs, although we would like to reiterate that concerns regarding the fiscal management of this grant involve not only the issues raised by FEMA's disallowed costs, but also weaknesses noted in several other separate findings. Based on responses to those findings, it appears Metro understands improvements are needed and plans to take corrective action.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-43: Metro Public Works Should Improve Procedures To Ensure Invoices Are Paid In Accordance With Contractual Agreements

Federal Program: CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Allowable Costs/Cost Principles
Amount of Questioned Costs: $78,121

During our audit, we reviewed contractual agreements between the Louisville Metro government (Metro) and various service providers related to expenditures for Metro's federal disaster grants (CFDA 97.036 - Public Assistance Grants). We reviewed invoices charged to the grants to determine whether the rates paid and scope of work performed was consistent with the terms of the contractual agreements. Our review identified the following internal control weaknesses and noncompliances:

- In eight instances, a combined 3,952.61 tons of debris was removed from Louisville Metro roads at a rate invoiced at $25 per ton higher than the contracted rate. This results in questioned costs of $74,111, which represents the 75% federal share portion of the invoices.
- In two instances, a grid location was cleared of debris which was not a location specified in the bid. This results in questioned costs of $4,010, which represents the 75% federal share portion of the invoices.
- Six instances were noted in which amounts were billed at rates that could not be supported in the contracts provided to the auditor. The supporting documentation was not sufficient to determine if the costs were allowable and accurate as billed.

Metro Department of Public Works (Metro Public Works) had inadequate internal controls over the review of invoices relating to contractual agreements, which allowed for unallowable charges at incorrect rates to be billed, and subsequently paid, without detection.

The failure of Metro Public Works to effectively review invoices for accuracy, compliance with contractual agreements, and federal grant requirements lead to improper payments and ultimately $78,121 in questioned costs identified above. The nature of the finding suggests additional questioned costs are likely, but could not be determined during the audit. Furthermore, failure to correct noncompliances and weaknesses in internal control could jeopardize future federal funding for the government.

Sound internal controls require that invoices for payments of goods and services agree to the approved contractual rates when applicable, and be thoroughly reviewed to ensure that charges are accurate, properly supported, and compliant with related contractual agreements and grant requirements.

Recommendation

We recommend Metro Public Works implement procedures to improve internal controls over the payment of invoices to ensure charges are consistent with contractual agreements in both the scope of work preformed and the rates charged.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-43: Metro Public Works Should Improve Procedures To Ensure Invoices Are Paid In Accordance With Contractual Agreements (Continued)

Management's Response and Corrective Action Plan

Metro Government will follow the auditor's recommendation and develop formal policies and procedures related to managing disaster grants and recovery efforts. This policy will incorporate the documentation requirements from FEMA and outline the role of Metro Government as a whole and the roles of each department in the event there is a disaster. Once this policy is developed, Metro Government will provide this guidance to all departments. This policy will include instructions on contract and invoice requirements with outside vendors.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weaknesses Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-44: Metro Public Works Should Implement Procedures To Ensure Grant Charges In LeAP Are Accurate And Traceable To Valid Supporting Documentation

Federal Program: CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Amount of Questioned Costs: $0

During our FY 2009 audit, we tested Louisville Metro Department of Public Works' (Metro Public Works) internal controls and compliance with allowable cost requirements applicable to Public Assistance Grants (CFDA 97.036). We noted the department was unable to reconcile grant accounting detail reported in the government's financial accounting system, LeAP, to supporting documentation for the Project Worksheets (PW). The PW documents the authorized scope of work and the cost estimate. Metro Public Works maintains a file of invoices and other expenditure supporting documentation to support the allowable charges applied against each PW. Without a clear link between the grant accounting detail in LeAP and the supporting documentation in the PW files, the auditor cannot determine the completeness of the charges in LeAP for the grant, the accuracy of the federal expenditure amounts reported on Metro's SEFA, or that the supporting documents contained in the PW files represent valid, paid expenditures charged to the grant.

Although Metro Public Works maintained detailed PW files, the department utilized a flawed methodology for allocating Public Assistance grant expenses reported in LeAP. In some instances, the department simply calculated 75% of the total PW cost, and transferred that amount into the grant funds. These transfers made of the total PW amounts led to problems tracing the account detail to specific charges.

The difficulty Metro Public Works had in supporting amounts reported in LeAP prompted Metro Finance to perform additional procedures to determine whether amounts reported in the government's SEFA were reasonable. Metro Finance's review identified the potential for an understatement up to $1,608,084 in the grant accounts, and consequently the SEFA, as of June 30, 2009.

The failure to implement adequate policies and procedures over grant accounting could lead to noncompliances with federal requirements and/or material misstatements on the SEFA. Furthermore, the failure to manage the grant program in a manner that supports proper fiscal management, appropriate supporting documentation and accurate underlying accounting records puts future federal funding at risk.

Sound accounting practices require that sufficient internal controls be implemented to ensure that grant charges in the financial accounting system be supported through accurate, valid supporting documentation. Furthermore, calculations used to prepare financial transactions should be maintained, and contain sufficient detail to identify the source of the information.

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FINDING 09-METRO-44: Metro Public Works Should Implement Procedures To Ensure Grant Charges In LeAP Are Accurate And Traceable To Valid Supporting Documentation (Continued)

Recommendation

Metro Public Works should work in conjunction with Metro Finance to strengthen controls over the reporting of amounts within LeAP. Metro Public Works should consider developing a spreadsheet or database to track each PW and details all associated expenses and invoices that are allocable to the project. This information should be in sufficient detail to be easily traceable to LeAP to ensure the underlying accounting details are properly supported.

Management's Response and Corrective Action Plan

Metro Government will follow the auditor's recommendation and develop formal policies and procedures related to managing disaster grants and recovery efforts. This policy will incorporate the documentation requirements from FEMA and outline the role of Metro Government as a whole and the roles of each department in the event there is a disaster. Once this policy is developed, Metro Government will provide this guidance to all departments.

However, it is of note that Stafford Act requires all FEMA Project Worksheet's be written and submitted within 60 days of an event kick-off meeting. In both FEMA events in fiscal year 2009, the work to clear and dispose of debris was not finished within 60 days. FEMA's practice is to write Project Worksheet's and note the percent of work actually completed in the upper right corner of the cover sheet and also note at the bottom of the form a projected expense for "work to be completed". The auditor was made aware of this practice and was informed that in many cases, our actual expenses varied greatly from projected expenses. FEMA uses projected costs to ensure the applicant has an opportunity to be reimbursed for all eligible expenses that must be proven during the review process.

Auditor's Reply

The auditor understands the FEMAs process in documenting the percentage of work completed and estimating projected costs. However, amounts reported in LeAP should still be supported and traceable to corresponding documentation. Project worksheets serve as the project formulation team's determination of the eligible scope of work and cost estimate, therefore, all charges documented within LeAP related to the FEMA grant should relate to an approved project worksheet regardless of whether it approves projected costs. Adequate support should then be attached to that project worksheet to verify and reconcile the amounts charged to the grant within LeAP.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-45: Metro Office Of Management And Budget Should Implement Policies And Procedures To Ensure Consistent And Equitable Application Of Its Indirect Cost Allocations

Federal Program: Various
Federal Agency: Various
Compliance Area: Allowable Costs/Cost Principles
Amount of Questioned Costs: $0

During our review of Louisville Metro's government-wide indirect cost plan, it was noted that Metro does not consistently recoup indirect costs for all departments. In FY 2009, Metro Finance only requested reimbursement for indirect costs for two grant programs - Community Development Block Grant (CDBG) and Lead, totaling approximately $678,004. Metro Grants Management is not aware of the total amount of indirect costs Metro could be recouping that it currently is not. However, Metro's approved indirect cost rate of 18.59% applied to more than $19.8 million dollars in direct federal program salary and benefit expenses suggests that as much as $3.7 million dollars could be recouped from federal programs, with the actual amount dependent on program restrictions and available funding.

Metro lacks a government wide policy for indirect costs, and the inconsistent methodology leads to the general fund carrying a larger fiscal burden for indirect costs than necessary. Furthermore, the failure to recoup indirect costs doesn't depict a true picture of the total cost to operate the programs, and raises a question of fairness on placing an indirect cost burden on two federal programs but not on others.

Per A-133 Compliance Supplement, Part 3 Compliance Requirements, Section B Allowable Costs/Cost Principles page 19 states "The methods for allocating the costs are in accordance with the applicable cost principles, and produce an equitable and consistent distribution of costs (e.g., all activities that benefit from the indirect cost, including unallowable activities, must receive an appropriate allocation of indirect cost)."

Recommendation

We recommend Metro Office of Management and Budget implement consistent policies and procedures to recoup indirect costs from all programs.

Management's Response and Corrective Action Plan

Metro Government is currently in the process of evaluating the indirect cost allocation and although additional costs may be recouped from funding sources, it has been Metro Government's policy to instead apply funding to the direct services of programs while Metro Government absorbs the administrative costs. Metro Government will develop a formal policy that outlines the methodology for calculating the allocation rate, documentation required in determining what programs to apply the rate to and how the revenue will be recognized in our financial system.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-46: Metro Housing And Family Services Should Improve Procedures To Ensure Compliance With The Davis Bacon Act

Federal Program: CFDA 14.218 Community Development Block Grants/Entitlement Grants
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Davis Bacon Act
Amount of Questioned Costs: $0

During the FY 2009 audit of the Community Development Block Grant (CDBG), we tested two projects for which the Davis Bacon Act requirements were applicable. We concluded that in both instances, Metro Department for Housing and Family Services (HFS) did not review the payrolls submitted by contractors to ensure the wage rates paid by the contractor were in agreement with the wage rates specified in the project agreement between HFS and the contractor.

For one of the two projects identified above, HFS indicated its understanding was that the Metro Department of Public Works (DPW) would oversee the monitoring of the Davis Bacon Act compliance requirements. However, HFS did not have a written agreement in place with DPW, nor did it follow up with the department to verify contractors' compliance. Also, as noted in a separate finding, auditors determined that DPW was not compliant in its monitoring of Davis Bacon Act requirements for its contractors, and therefore was not performing the procedures HFS may have relied upon.

HFS assigned a new staff person to monitor the two projects noted above. This staff person may need additional training of Davis Bacon Act requirements and help in implementing the appropriate procedures to document contractors' compliance. The failure to review contractors' payrolls to ensure compliance with prevailing wage rates could lead to noncompliance with Davis Bacon Act requirements, and therefore potential questioned costs.

Proper internal controls over federal Davis Bacon Act requirements dictate that documentation should be maintained to provide evidence that a review of contractors' payrolls is performed to verify compliance with prevailing wage rates.

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction"). 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) (29 CFR sections 5.5 and 5.6).

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-46: Metro Housing And Family Services Should Improve Procedures To Ensure Compliance With The Davis Bacon Act (Continued)

Recommendation

We recommend HFS develop procedures to document a review of the payrolls submitted by contractors for applicable projects. We also recommend that if HFS assigns the responsibility of David Bacon Act monitoring to another department for efficiency, each department's responsibilities be documented in writing and HFS should routinely follow up to ensure it is made aware of any noncompliance of its contractors.

Management's Response and Corrective Action Plan

Transitioning responsibility for monitoring the Davis-Bacon Act compliance to the Grants Planning, Compliance and Monitoring Unit was begun, but not completed, in fiscal year 2009. Public Works and Assets ("PWA") was already overseeing the Davis-Bacon requirements of one fiscal year 2009 CDBG funded project and the decision was made by HFS Management to maintain the status quo. HFS has determined it will not delegate any Davis-Bacon Act responsibilities to other Metro Departments. The Labor Standards Officer at HFS will assume all Labor Standards and Davis-Bacon Act responsibilities to ensure compliance with those federal regulations as they relate to HUD funded projects. Appendix B, Attachment B includes the Labor Standards policy of HFS and the contract documentation requirements for ensuring compliance.

Metro Government is in the process of developing a policy related to Davis-Bacon compliance. This policy will specifically address the department's responsibility for monitoring compliance, maintaining appropriate documentation of compliance, and, if a department determines it is more appropriate for a second department to oversee Davis-Bacon compliance, the need to document the agreement between the two departments.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-47: Metro Housing And Family Services Should Continue Progress Towards A Reconciliation Between IDIS And LeAP

Federal Program: CFDA 14.218 Community Development Block Grants/Entitlement Grants
CFDA 14.239 HOME Investment Partnerships Program
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Cash Management
Amount of Questioned Costs: $0

Prior audit findings and prior monitoring reports from the U.S. Department of Housing and Urban Development (HUD) indicated that Metro's financial accounting system, LeAP, did not reconcile to the federal IDIS system used by Metro Housing and Family Service (HFS) for federal draw downs. HFS has worked with the Metro Office of Management and Budget (OMB) to complete a reconciliation of overall actual expenditure and revenue activity recorded in LeAP for fiscal years 2004 through 2007 compared to program income and draws recorded in the IDIS system for the same period. The reconciliation was for total activity only and was not a reconciliation of individual programs established in LeAP and IDIS.

HUD asked that an independent party verify the accuracy of the reconciliation. A CPA firm was hired to perform an agreed upon procedures engagement to review the reconciliation, the results of which indicated the methodology and calculations used in the reconciliation appeared accurate. The results of the overall reconciliation identified approximately $48,000 overdrawn by Metro. Metro has also gotten approval from HUD to move its program year in line with Metro's fiscal year, so both the programmatic and fiscal budgets will be under the same fiscal year beginning July 1, 2010.

Although progress is being made on the reconciliation of the IDIS system to LeAP for fiscal years 2004 through 2007, HUD has indicated they will issue an official response after fiscal year 2010 in order to ensure the sync in program and budget period is operating effectively. Therefore, since this issue is still in progress during the period under audit, we are repeating our reporting of this finding until HUD's review is complete and a determination can be made that Metro's corrective action is operating effectively.

Since the grant balances reported in the federal IDIS system have not been reconciled to the financial accounting system (LeAP), HFS cannot assure HUD that grant funds have been properly accounted for. The lack of reconciliation between the two systems increases the risk that errors, misappropriation, and/or non-compliance could occur and not be detected.

U.S. Office of Management and Budget (OMB) regulations at 2 Code of Federal Regulations (CFR) 225, Cost Principles for State, Local, and Indian Tribal Governments (formerly OMB Circular A-87) provide that governmental units are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-47: Metro Housing And Family Services Should Continue Progress Towards A Reconciliation Between IDIS And LeAP (Continued)

Recommendation

We recommend the Metro Department of Housing and Family Services continue its progress toward developing procedures for the reconciliation of the IDIS system to LeAP. Also, we recommend that once the reconciliation process is in place and operating effectively, Metro take measures to ensure the systems are reconciled monthly to ensure accurate reporting and compliance with federal grant requirements.

Management's Response and Corrective Action Plan

HFS and OMB work closely together to reconcile monthly expenditures prior to requesting any drawdown of grant funds. In addition, OMB completes a monthly reconciliation between IDIS and LeAP activity. Metro Government is currently in the process of transitioning the HUD programs from operating on a calendar year to Metro Government's fiscal year. Once this transition is complete, HFS and OMB will prepare an overall multi-year reconciliation between IDIS and LeAP balances as requested by HUD. As noted in the auditors comment, HUD will issue an official response after fiscal year 2010 to ensure the sync in program year and budget period is operating correctly.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-48: Metro Housing And Family Services Should Document Its Review Of Contractors Paid With Federal Funds To Ensure Compliance With Procurement, Suspension and Debarment Requirements

Federal Program: CFDA 14.218 Community Development Block Grants/Entitlement Grants
CFDA 14.239 HOME Investment Partnerships Program
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Procurement and Suspension and Debarment
Amount of Questioned Costs: $0

During the FY 2009 audit of the Community Development Block Grant (CDBG) and the HOME Investment Partnership Program (HOME), we noted that no one within the Metro Department of Housing and Family Services (HFS) verified that contractors receiving federal funds were not suspended or debarred per the federal Excluded Parties List System (EPLS). Upon inquiry, HFS staff indicated their understanding that this responsibility belonged to Metro Division of Purchasing. However, Metro Purchasing indicated it did not check for suspension and debarment because it was the responsibility of the departments to carry out specific grant requirements.

Also, in addition to the contractors directly hired by HFS as noted above, the department maintains an approved contractor list for CDBG rehabilitation specialists and HOME repair contractors to use in assisting homeowners in choosing a contractor for their project. We inquired of HFS rehabilitation staff, as well as the rehabilitation supervisor that gives final approval of contractors on the approved contractor list, to determine if a staff person was checking the approved contractor list for federal suspension and debarment. Although the rehabilitation supervisor provided the name of an administrative staff person assigned to review applications for the approved contractor list, this employee was not aware of the EPLS, or about requirements for federal suspension or debarment.

Metro HFS staff has not made it priority to check the EPLS to determine if a vendor who receives federal funds for payment of services or goods is suspended or debarred. Vendors who are suspended or debarred have a history of unreliable contract performance or other legal or financial concerns that indicate they may put federal dollars at a higher risk of loss, theft or abuse, and therefore have been identified by a federal agency as prohibited from working on federal projects. Therefore, it is critical that HFS staff verify vendors are not on the EPLS.

Also, auditors noted that HFS did not have a written checklist for the review of applications for the approved contractor's list used in the CDBG rehabilitation and HOME repair projects. Such a checklist may help clarify employee responsibilities and expectations for the review of applications to ensure consistency in approving contractors, and also ensure the contractor is not on the EPLS.

OMB Circular A-133 Part 3 of the Compliance Supplement on Procurement, Suspension and Debarment states: "Non-Federal entities are prohibited from contracting with or making sub awards … to parties that are suspended or debarred or whose principals are suspended or debarred."

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FINDING 09-METRO-48: Metro Housing And Family Services Should Document Its Review Of Contractors Paid With Federal Funds To Ensure Compliance With Procurement, Suspension and Debarment Requirements (Continued)

The above referenced section of the Compliance Supplement also states: "this verification [of whether or not the vendor is suspended or debarred] may be accomplished by checking the Excluded Parties List System (EPLS) …, collecting a certification from the entity, or adding a clause or condition [to the contract] … with that entity."

OMB Circular A-133 Section I Suspension and Debarment states: "Non-Federal entities are prohibited from contracting with or making sub awards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded.

Good internal controls dictate documentation of the determination of suspension or debarment for contractors who receive federal funds as payment for goods or services provided. Documenting the determination of suspension or debarment ensures compliance with federal awards requirements.

Recommendation

We recommend HFS:

- Formally assign a staff person to document a review of the EPLS for all contractors paid with federal funds and ensure the employee is aware of the responsibility and how to perform it; and
- Develop a checklist for review of the applications for the approved contractor list for CDBG rehabilitation and HOME repair projects. This checklist should include verification that the contractor is not on the EPLS, as well as other requirements to ensure consistency in the application review process.

Management's Response and Corrective Action Plan

In an effort to maintain tight controls on the Approved Contractor list, HFS will follow the auditor's recommendation by assigning and training a staff person to manage and update the Approved Contractor list on an as needed basis by using the EPLS. The Housing Rehab Supervisor will train this staff person on the required checklist process for verifying that a contractor is not on the EPLS and to ensure consistency in the application review process.

Embargoed Until 9am Wednesday March 24, 2010

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-48: Metro Housing And Family Services Should Document Its Review Of Contractors Paid With Federal Funds To Ensure Compliance With Procurement, Suspension and Debarment Requirements (Continued)

Management's Response and Corrective Action Plan (Continued)

HFS has developed a certification form to be completed for all contracts (see Appendix B, Attachment C). This certification will state that, at the time of the contract award, the contractor is not on the EPLS and if the contractor is suspended or debarred and placed on the EPLS, the contractor will notify HFS within 24 hours of their suspension or debarment.

HFS will ensure these forms are maintained for all active projects and will monitor the EPLS database on an ongoing basis for compliance.

Metro Government is currently in the process of updating our Procurement policies and will include detailed instructions for the EPLS review prior to any bid evaluation process and the addition of standard language in all contracts stating that if a vendor is placed on the EPLS they must notify Metro Government within 24 hours. Metro Government plans to have this policy in place before the close of fiscal year 2010.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-49: Metro Housing And Family Services Should Develop Procedures To Identify And Report All Subrecipients

Federal Program: CFDA 14.218 Community Development Block Grants/Entitlement Grants
CFDA 14.239 HOME Investment Partnerships Program
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Subrecipient Monitoring
Amount of Questioned Costs: $0

During the FY 2009 audit of HOME Investment Partnership (HOME) and Community Development Block Grant (CDBG) programs, auditors noted the Subrecipient List submitted to Metro Finance for reporting amounts sent to subrecipients on Metro's Schedule of Expenditures of Federal Awards (SEFA) is not complete. A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. Metro Finance relies on the Metro Department of Housing and Family Services (HFS) to provide relevant information to be reported on the SEFA. HFS did not provide Metro Finance with a list of subrecipients for the HOME grant, and auditors noted three Community Development Block Grant (CDBG) subrecipients excluded from the list submitted for that grant. A similar deficiency was noted in the prior year audit.

Although we are aware that HFS staff performed a review of payments to suppliers in LeAP in FY 2009 to determine the subrecipient payment list, the list may not have included all subrecipients because HFS staff may have had difficulty differentiating between subrecipients and vendors for certain entities. If subrecipients are not accurately determined, there is an increased risk that subrecipient payments reported will be inaccurate and that all subrecipients will not be properly monitored.

OMB Circular A-133, Subpart B, section .210 provides criteria for determining if an entity receiving payments for a federal award is a subrecipient or a vendor. Furthermore, OMB Circular A-133 Subpart C, section .310 states, "to the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program."

HFS should ensure that staff responsible for providing information to Metro Finance for federal reporting are knowledgeable about reporting requirements and understand and apply the criteria for determining subrecipients. Management should also understand the requirements and should review information for accuracy and ensure completeness.

Recommendation

We recommend HFS develop procedures to ensure all subrecipients are properly identified in accordance with guidelines presented in OMB Circular A-133. Furthermore, HFS should ensure that accurate and complete subrecipient information is reported to Finance for reporting in the SEFA.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-49: Metro Housing And Family Services Should Develop Procedures To Identify And Report All Subrecipients (Continued)

Management's Response and Corrective Action Plan

The HFS Business Office and Grants Planning, Compliance and Monitoring Unit have developed procedures to ensure proper identification and reporting of subrecipients to OMB (see Appendix B, Attachment H). HFS Business Office staff recently attended CDBG training, gaining a better understanding of the CDBG grant management program administration, financial management, eligible activities and subrecipient determination. Additional training will be provided to ensure staff is knowledgeable of the reporting requirements and understands the principles for determining subrecipients. Appendix B, Attachment I provides a list of subrecipients inadvertently omitted from the list originally sent to OMB to be reported on the SEFA. Despite the failure to submit these three subrecipients to OMB, two were monitored as a part of the 2009 Monitoring Schedule: Louisville Metro Housing Authority–Clarksdale and Legal Aid–Predatory Lending Education. New Directions–Roof Repair was monitored in January 2010.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-50: Metro Housing And Family Services Should Continue To Improve Controls Over The Investor Loan Database

Federal Program: CFDA 14.218 Community Development Block Grants/Entitlement Grants
CFDA 14.239 HOME Investment Partnerships Program
CFDA 14.900 Lead-Based Paint Hazard Control in Privately-Owned Housing
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Program Income
Amount of Questioned Costs: $0

During our FY 2009 audit, we performed follow up procedures related to a prior year finding related to the Investor Loan Database. As part of our procedures, we asked Metro Department of Housing and Family Service (HFS) management if the corrective action plan it presented for the prior year finding had been implemented, including: installing new loan tracking software, developing policies and procedures, and coordinating collection activity. We found that policies and procedures have been written, collection activity is beginning, but while progress has been made in getting ready for new software, it has not yet been implemented. The loan tracking software is scheduled to be installed in February 2010. Because the noncompliance from the prior year audit has not been corrected, the finding is being repeated in the current year audit.

HFS has been working with the software company to modify the new loan tracking software to meet its needs, such as a reporting module and the ability to track loans by IDIS number. Because of these modifications, implementation of the software has been delayed.

Proper internal controls over the Investor Loan Database includes ensuring HFS has an accurate accounting of all repayable investor loans and provides for regular monitoring of these loans and regular collection activity for delinquent loans. Management should be knowledgeable about this area and provide strong supervisory oversight.

OMB Circular A-133 dictates that program income be correctly determined, recorded, and used in accordance with the program requirements, A-102 Common Rule, and OMB Circular A-110, as applicable.

Recommendation

We recommend HFS continue to implement corrective action in this area. This includes:

- Ensuring the database of loan information is correct and complete;
- Developing consistent collection activities for delinquent loans;
- Determining the status of all investor loans;
- Implementing loan tracking software; and
- Ensuring that monitoring for the period of affordability is completed.

In addition, we recommend HFS devote adequate staff to complete these and ongoing tasks in this area. Management should provide supervisory review of activities, as well as technical support for staff.

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FINDING 09-METRO-50: Metro Housing And Family Services Should Continue To Improve Controls Over The Investor Loan Database (Continued)

Management's Response and Corrective Action Plan

In an effort to strengthen oversight and accountability for the Investor Loan Database, HFS is working with OMB on a consistent basis to make updates to the current HUD loans database. Written policies and procedures have been developed for Loan Services, which includes procedures for collection activity and monitoring the period of affordability.

During February and March 2010, OMB performed a thorough review of all loan files to ensure accuracy of the customer information, loan terms, and amortization schedule of each loan. This review was completed in conjunction with the implementation of the Oracle Loans database. OMB is reviewing all changes and findings with HFS prior to loans being placed in the Oracle Loans database.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-51: Metro Housing And Family Services Should Ensure Compliance With Program Income Requirements

Federal Program: CFDA 14.239 HOME Investment Partnerships Program
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Program Income
Amount of Questioned Costs: $0

Metro Department of Housing and Family Services (HFS) receives program income for the HOME grant from payments on loans made to eligible citizens and businesses for home repair, down payment assistance, and investor loans. During our audit, we noted a transaction in the HOME account detail described as "Apply FY08 Deferred Program Income." We reviewed further and found that this was an entry to apply 2008 program income to current expenditures. Similar activity related to the deferral of program income was also reported in the fiscal year 2008 audit, at which time HFS had directed Metro Finance to hold this program income for a specific project. This practice is not consistent with Metro Finance policies and procedures over the draw down process for other grants, and therefore it is unclear why this practice was authorized for HOME.

Because the FY 2008 program income was applied after additional entitlement funds were drawn down in FY 2009, Metro was not in compliance with federal regulations for program income.

The United States Department of Housing and Urban Development (HUD) regulations regarding program income require that program income must be used before additional HOME entitlement funds are drawn down. A participating jurisdiction may not draw down HOME entitlement funds while allowing program income to accumulate in its local account. Available program income must be used to pay the next eligible program costs. [24 CFR Part 92.502(c) (3)]

Recommendation

We recommend Metro HFS and Metro Finance follow established policies and procedures for draw downs, and work together to ensure compliance with federal regulations for program income.

Management's Response and Corrective Action Plan

The HFS Business Office continues to work with OMB Grants Management Division to follow the established HUD Drawdown Policies and Procedures (see Appendix B, Attachment E) to ensure expenditures are reviewed and approved by appropriate program staff and draws are made in a timely fashion to meet federal regulations. HFS will continue to follow HUD regulations regarding the use of program income to ensure program income is expended prior to reimbursement of entitlement funds being requested.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-52: Metro Housing And Family Services Should Ensure Employee Responsibilities Are Adequately Segregated

Federal Program: CFDA 14.239 HOME Investment Partnerships Program
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Eligibility
Amount of Questioned Costs: $0

As noted in the prior year audit, we noted a lack of segregation of duties and lack of adequate supervisory review over the HOME Down Payment Assistance Program during our FY 2009 audit. One employee performed all functions related to eligibility determination and document processing without adequate supervisory review. This person is knowledgeable about the grant requirements and has strong organizational skills. However, in the absence of either segregated duties or adequate supervisor review, there is an increased risk that errors or non-compliance could occur and not be detected.

In response to the prior year audit comment but subsequent to FY 2009, Metro Department of Housing and Family Services (HFS) implemented new supervisory review procedures for this program. The Case Review Board, which includes the HFS Housing Director, reviews cases before funds are released. Auditors reviewed a file prepared subsequent to fiscal year 2009 and found evidence of the HFS Housing Director's review. However, since the weakness existed during FY 2009, and was not corrected until after the fiscal year, a repeat finding was warranted.

Having one person perform all tasks for the Down Payment Assistance Program could cause material error, fraud or noncompliance that might not be detected through compensating controls due to the lack of supervisory review.

Proper internal controls dictate that incompatible duties be segregated and/or appropriate supervisory review occurs to minimize risk of undetected fraud, error and/or noncompliance. HFS should have either segregated duties between several knowledgeable employees or implemented a thorough supervisory review by a person knowledgeable of grant requirements to ensure material errors and/or noncompliances are not made.

Recommendation

We recommend HFS continue to follow the new procedures implemented subsequent to fiscal year 2009 and ensure that all files receive sufficient supervisory review to ensure correct eligibility determination and compliance with program requirements before funds are released.

Management's Response and Corrective Action Plan

HFS places great importance on securing appropriate oversight, accountability and internal controls for the Down Payment Assistance Program. As recommended, HFS will continue to follow the procedures implemented in fiscal year 2009. All cases will continue to be reviewed by the Case Review Board, which includes the Housing Director and the Housing and Rehab Manager. All files will be reviewed for eligibility and compliance with program requirements prior to funds being released.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-53: Metro Community Action Partnership Should Implement Procedures To Ensure Reimbursement Requests And Final Reports Are Submitted Timely

Federal Program: CFDA 93.568 Low-Income Home Energy Assistance
Federal Agency: U.S. Department of Health and Human Services
Compliance Area: Cash Management
Amount of Questioned Costs: $0

The Low-Income Home Energy Assistance Program (LIHEAP) obtains Federal funds on a reimbursement basis and submits requests for reimbursement on Form HM-2. At the close of the program, the agency is to submit a final close-out report (Form HM-3). This information is to be submitted to Community Action Kentucky (CAK) based on a schedule included in the LIHEAP Manual, which CAK prepares annually. During our FY 2009 audit, we noted the reimbursement requests (Form HM-2) and the final closeout report (Form HM-3), were not submitted to CAK according to the schedule outlined in the LIHEAP Manual.

Reimbursement requests and the final closeout report are not being reviewed, approved and submitted in a timely fashion due to the lack of clearly defined policies and procedures within the department.

By not submitting the reimbursement requests and closeout report timely, the agency is not following the prescribed policies and procedures established for the program. In addition, since the reimbursement requests submitted to CAK are combined with other agency reports for invoicing the Cabinet for Health and Family Services (CHFS), not adhering to CAK's time frame could result in delays in CAK's report submission to CHFS. Finally, without submitting the final close-out report as outlined in the LIHEAP Manual, the subcontract may not be closed out promptly, delaying final reports to grantors.

Per the LIHEAP Manual, invoices should be submitted to CAK according to the schedule outlined in the appendix. CAK will accept requests for reimbursements only on the appropriate billing form and signed by the appropriate signatory authority, attesting to the accuracy and validity of the expenses reported and assuring the expenses are not duplicative of expenses reported to other funding sources.

In addition, the LIHEAP Manual states that subcontract agreements will not be considered finally closed prior to the submission of a cumulative report of customers served and costs incurred (Form HM-3). Each subcontract agreement will be closed out as promptly as feasible after the expiration of the agreement, with the final report (Form HM-3) being due to CAK by June 1.

Recommendation

The Metro Community Action Partnership should review the annual update of the LIHEAP Manual, and implement procedures to ensure that all reimbursement requests and the final closeout reports are submitted timely in accordance with the schedule presented in the manual.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-53: Metro Community Action Partnership Should Implement Procedures To Ensure Reimbursement Requests And Final Reports Are Submitted Timely (Continued)

Management's Response and Corrective Action Plan

CAP will establish procedures for review of the annual update of the LIHEAP Manual. CAP will work cooperatively with the HFS Business Office to ensure all reimbursement requests and the final closeout report are submitted timely as outlined in the LIHEAP Manual. The grant tracking sheet will be utilized by the HFS Business Office to ensure grant reporting requirements are met.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-54: Metro Housing And Family Services Should Strengthen Internal Controls Over LIHEAP Eligibility

Federal Program: CFDA 93.568 Low-Income Home Energy Assistance
Federal Agency: U.S. Department of Health and Human Services
Compliance Area: Eligibility
Amount of Questioned Costs: $0

Eligibility determinations for the Low-Income Home Energy Assistance Program (LIHEAP) are documented through the completion of a verification checklist completed by a Metro Community Action Partnership (CAP) employee. All documentation for the eligibility determination is maintained in the client file and also reported in CASTINET, a database system for recording all applicant information. In testing whether the program met eligibility requirements, numerous exceptions were noted:

- Twelve instances in which information in the client file did not agree to the information in CASTINET, including instances in which applications shown as approved in the client file, but reported as void in CASTINET;
- Inconsistent information between documents within the client file, such as instances in which the amount of income varied between the application and verification checklist, as well as the housing type (subsidized/nonsubsidized), which affect the dollar value of benefits an applicant can receive;
- Three instances in which document copies, as opposed to originals, were included in the client file;
- Nine instances in which copies of documentation maintained in the client file was not complete;
- Two instances in which required applicant signatures were missing;
- One instance in which unallowed documents were used for income verification; and
- A general policy of maintaining multiple files for one individual for each time application is made.

In addition, although the agency is following procedures established by Community Action Kentucky (CAK), there is overall lax verification and documentation procedures for utility benefits. CAK permits this verification to be evidenced through a checklist, but the use of a checklist does not lend itself to increased scrutiny to ensure individuals are not falsifying information in order to receive benefits for which they may not be entitled. For example, an individual can include children as part of the household size to ensure the eligibility criterion is met. The applicants only have to provide a social security card for those claimed, but nothing attesting to the fact that they are in fact their parent (via a birth certificate) or legal guardian. Also, an applicant can simply state that they have zero income and fill out a zero income verification form. The applicant can go to anyone and have them sign off that they did not have any income for the prior months, and this is the only documentation required. The agency currently does not have the capability to verify zero income through the various state databases, such as those for unemployment and food stamps.

Management does not have adequate controls in place for review of eligibility files to ensure the required information for eligibility determinations is complete and appropriately maintained. The procedures established by CAK detail the minimum requirements for documentation; however, the agency should strengthen verification procedures to address risks inherent to the program.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-54: Metro Housing And Family Services Should Strengthen Internal Controls Over LIHEAP Eligibility (Continued)

Without adequate review of eligibility files, management is not addressing the risk that information prepared internally or received from external sources could be incorrect. This weakness could lead to possible noncompliances with eligibility requirements and/or incomplete or missing information required for case files.

In addition, by not strengthening verification procedures, individuals receiving assistance have multiple ways to manipulate the system to receive benefits for which they are not truly eligible.

The Low-Income Home Energy Assistance Program Manual for 2008-2009 states that each county office will maintain a file for each household making application for assistance. Included in the case file will be a signed copy of the application, documents used for verification, any additional information regarding the disposition of the case, including referrals and other services provided in the form of case notes. The manual further states that the required documentation includes verification of income, responsibility of home energy costs, and for Crisis, verification of disconnect/past due if not a bulk fuel.

Recommendation

We recommend CAP:

- Implement policies to ensure all eligibility files be adequately reviewed and approved prior to payment to ensure that the required documentation is accurate and complete, and eligibility is properly determined.
- Work with CAK to facilitate flexibility for the agency in strengthening controls over eligibility beyond what is presented in CAK's LIHEAP Manual regarding what it can require of applicants to help prevent potential fraudulent applications. As part of this process, we further recommend that the agency consider requiring applicants bring in birth certificates or certification of guardianship for the children claimed as living in the household along with the social security cards, and documentation for other adults living in the household, such as an identification card.
- Further discuss with CAK the possibility of obtaining access to various state databases, such as unemployment information, food stamp data, etc., in order to provide a more reasonable means to verify income information provided by LIHEAP applicants.

As was recommended in the prior year, the auditor again recommends the agency work to develop procedures so that one case file is maintained for each client, with documentation of all activity (approved, voided, denied applications and any other documents provided) to be included. Maintaining one file enables the employee processing applications to know how many times a client has applied for assistance, if the client is changing information such as income or household number to qualify for assistance, and to ensure an applicant does not receive more than the maximum benefits allowed.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-54: Metro Housing And Family Services Should Strengthen Internal Controls Over LIHEAP Eligibility (Continued)

Management's Response and Corrective Action Plan

As the auditor noted, CAP is following the procedures established by Community Action Kentucky (CAK). While the auditors may take issue with the requirements of CAK, CAP works to meet the procedures that they have established. CAP will continue to evaluate policies and procedures to ensure that eligibility files are reviewed and approved prior to payment. Regular evaluations will serve to ensure that required documentation is accurate and complete and eligibility determinations are properly performed. CAP currently does, and will continue to, refer any suspected instances of abuse of the system or fraudulent activity to CAK for their follow up.

Further, CAP will work with CAK through the LIHEAP Change Committee process to address the following items:

- *discussion of strengthening the eligibility process beyond CAK's current procedures;*
- *obtaining access to various state databases such as unemployment and food stamp databases; and*
- *Maintaining one case file for each client.*

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-55: Metro Housing And Family Services Should Ensure Eligibility Requirement Procedures For Shelter Plus Care Are Followed And Required Rent Reasonableness Tests And Inspections Are Performed

Federal Program: CFDA14.238 Shelter Plus Care
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Eligibility, Special Tests and Provisions
Amount of Questioned Costs: $0

During testing of compliance with eligibility requirements for the Shelter Plus Care (SPC) program, the auditor reviewed 48 clients/participants that received rental assistance during FY 2009. Each case file was reviewed for eligibility requirements, documentation of a rent reasonableness test, and compliance with housing quality standards inspections. Of the 48 cases tested, 23 contained the following deficiencies:

- Two instances in which case files did not clearly indicate the claimants met the eligibility requirements for the program. In one instance, an individual's recertification was never processed. In the second instance, the client had a child that was over the age of 18, which requires that the income for that person be included in the rental assistance calculation. However, the individual's income was not obtained.
- Seventeen instances in which there was either no supervisory review or the supervisory signature was six months to over a year past the date the occupancy agreement was signed by the tenant.
- Six instances in which errors were noted with the eligibility calculation. Examples of these errors included: amounts paid to the landlord over the eligible amount, information necessary for calculation was missing, or a discrepancy in the calculation was noted.
- Five instances did not have a timely recertification as established by SPC policies and procedures.
- Two instances in which the rent reasonableness test was not on file.
- Seven instances lacked either a timely housing quality standards inspection, or did not have a re-inspection of a failed initial inspection within 10 days as required.
- One instance in which a landlord continued receiving rental payments for an SPC client that had transferred to the Section 8 Housing program. Therefore, this landlord received payments from both the SPC program and the Section 8 program for the same tenant. SPC continued to pay the landlord $363 for August 2008 through April 2009, for a total of $3,267. Although the file contained emails noting that the individual transferred to the Section 8 program, timely follow up was not performed, and therefore the overpayment to the landlord was not refunded until June 2009.

Several other instances were noted in which landlords were either overpaid, received payments after a tenant no longer lived in the unit, or received duplicate payments from SPC.

Furthermore, during the review of the case files identified above, the auditor found several occupancy agreements, some as much as a year old, were signed by the project manager the day before the files were given to the auditor. Since recertification is required annually, several of the signed agreements were no longer effective, but contained supervisor signatures dated January 2010.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-55: Metro Housing And Family Services Should Ensure Eligibility Requirement Procedures For Shelter Plus Care Are Followed And Required Rent Reasonableness Tests And Inspections Are Performed (Continued)

Through inquiry, the auditor noted that Metro Department of Housing and Family Services (HFS) were short staffed during our audit period making caseload unmanageable. Furthermore, some HFS staff lacked the appropriate training to ensure program compliance. The effect of the weaknesses noted above is the potential for payment of benefits for ineligible individuals, leading to questioned costs and noncompliances.

The Shelter Plus Care Policies and Procedures manual, along with 24 CFR 582.300, outline the requirements for eligibility determination. These two publications provide the program staff with specific details as to what information must be properly maintained and the guidelines to follow for eligibility determination.

Recommendation

We recommend:

- SPC program management and staff adhere to the policies and procedures manual specifically established for this program and program regulations to ensure compliance with eligibility requirements.
- SPC program supervisors review all client files within a timely manner to ensure participants are eligible for program benefits.
- Timely rent reasonable tests and housing quality standards inspections are performed to provide the most cost effective and livable situations are made available to clients.
- Controls are implemented to ensure timely recertifications, inspections, and case reviews.
- HFS take measures to ensure all staff is well trained and that case loads are manageable to ensure timely and accurate determinations.

Management's Response and Corrective Action Plan

Procedures are currently in place to ensure that inspections, recertifications and rent reasonableness checks occur in a timely manner. Each lease date is recorded with the applicable due dates on a spreadsheet maintained and reviewed by supervisors. Recertification cases are to be completed in a timely manner and reviewed by a supervisor within 48 hours of completion.

A routine bimonthly case review process will begin effective April 1, 2010. Cases will be chosen randomly for review by supervisors as further assurance that documentation is up to date. All errors located during review will be corrected immediately. Copies of the Case Review checklist for HOME and SPC are included in Appendix B, Attachment L.

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FINDING 09-METRO-55: Metro Housing And Family Services Should Ensure Eligibility Requirement Procedures For Shelter Plus Care Are Followed And Required Rent Reasonableness Tests And Inspections Are Performed (Continued)

Management's Response and Corrective Action Plan (Continued)

An additional supervisor, two housing specialists, two social workers, an additional inspector and clerical support have been added to the SPC HOME team to make caseloads manageable. Each member of the staff has been trained on their job requirements and they receive weekly reviews of caseloads to ensure ongoing compliance with established procedures and grant requirements. Failure to follow established procedures by the staff is addressed by additional training, increased supervision and/or discipline as deemed appropriate and necessary by HFS management.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-56: Metro Housing And Family Services Should Continue To Strengthen Controls To Ensure Accurate Recording Of Shelter Plus Care Transactions And Ensure Reimbursement Draw Down Requests Are Only For Allowable Costs

Federal Program: CFDA 14.238 Shelter Plus Care
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management
Amount of Questioned Costs: $0

During review of account transactions for the Shelter Plus Care (SPC) program, the auditor noted numerous journal vouchers (JV). Upon review of these JVs, it was noted that the majority of these transactions were processed to correct numerous coding errors detected by the HFS business office. We found that payments to landlords were not properly monitored during the first half of FY 2009 to ensure proper recordkeeping and that payments were coded to the appropriate accounts, resulting in many of these payments initially charged to other grant funds. Furthermore, coding errors occurred in draw downs and in recording payroll expenses of the program. The auditor identified $1,220,975 initially coded in error. Of that amount, $223,769 was miscoded draw down funds, $49,958 was payroll expenses, and $947,248 was SPC landlord payments.

The business office is responsible for ensuring that payments made through this program are properly coded to the appropriate fund and grant. However, the coding errors were not detected for several months, resulting in transactions posted in improper grant funds. Auditors noted that the erroneous expenditures were included in reimbursement requests of the wrong federal grant program. Also, upon correcting the coding errors, the expenditures were also included in the reimbursement requests for the SPC program. Therefore, HFS received reimbursement twice for the same expenditures. These weaknesses also give the appearance that the HFS business office was charging expenses to any open grant with available funding due to a failure to provide proper fiscal management over its programs.

Sound internal controls dictate that adequate checks and balances be in place to prevent coding errors and duplicate payments. Procedures should also be in place to ensure proper fiscal and programmatic management over federal programs to ensure compliance with program requirements and recordkeeping that permits appropriate monitoring of fiscal activities.

Recommendation

We recommend HFS continue to strengthen controls within the business office to ensure accurate recording of transactions and grant funding. HFS should ensure that staff assigned to oversee grant activity and expenditure coding is properly trained and knowledgeable. We further recommend that HFS strive to decrease the need for JVs and to lower the number utilized in recording transactions to improve its ability to monitor grant activity. Finally, we recommend that additional tracking and review processes be implemented to prevent such coding errors from going undetected.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-56: Metro Housing And Family Services Should Continue To Strengthen Controls To Ensure Accurate Recording Of Shelter Plus Care Transactions And Ensure Reimbursement Draw Down Requests Are Only For Allowable Costs (Continued)

Management's Response and Corrective Action Plan

Under the direction of HFS Business Office personnel in place at the beginning of fiscal year, rental payments for Shelter Plus Care (SPC) grants for which cost centers had not been set up were paid from the HOME General Fund Match account and HOME TBRA account. Once the errors were discovered, journal entries were made to correct the miscoded items. To eliminate the possibility that this error could be repeated, appropriately trained HFS Business Office staff will establish cost centers for the various grants prior to expenditures being made and will continue to verify that payments are posted to the correct accounts prior to any draws being requested.

The journal entries transferring personnel expenses from the general fund to the respective grant accounts were processed based upon a review by HUD in order to draw down allowable administrative expenses for the grants. The journal vouchers were submitted to OMB with supporting documentation to enable tracking of personnel expenditures as needed. In addition, the monthly draw requests included the personnel documentation verifying the expenditures for grant reporting purposes.

In addition, the HFS Business Office continues to work with OMB Grants Management Division to follow the established Expenditure Verification and Drawdown Policies and Procedures (Appendix B, Attachments K and E) to ensure expenditures are reviewed and approved by appropriate program staff and made in a timely fashion.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-57: Metro Housing And Family Services Should Improve Controls Over Reimbursement Requests To Ensure They Are Adequately Supported And Properly Reviewed

Federal Program: CFDA 10.559 Summer Food Service Program for Children
Federal Agency: U.S. Department of Agriculture
Compliance Area: Cash Management
Amount of Questioned Costs: $0

During the testing of internal controls and compliance with cash management requirements for the Summer Food Service Program for Children (SFSPC), it was noted that the Metro Department of Housing and Family Services (HFS) did not have the appropriate supporting documentation for requests for reimbursement. The auditor noted that in all three reimbursement requests the program submitted to Kentucky Department of Education (KDE), meal counts reported on the forms were either not supported at all or supporting documentation did not agree to amounts reported.

For July and August 2008, the auditor noted that no support was provided for meals reported on the reimbursement request. However, for the June 2009 report, the supporting documentation was available but did not agree to the meal count submitted to KDE for reimbursement. The auditor also noted that all three reimbursement requests lacked supervisory review. The reimbursement requests are submitted to KDE electronically; however, the information is forwarded to the business office for review. There was no indication that this review was performed.

The prior year audit reported a finding related to inaccurate and untimely submission of reimbursements requests. Although the auditor noted some corrective action taken to address the prior year finding, HFS is reimbursed per meal served and this information was not able to be confirmed for July and August 2008 reimbursement requests. HFS did not provide any support for the number of meals reported, which ultimately lead HFS to repay KDE for an overstatement of meal counts in the prior year.

The auditor noted that HFS implemented changes in December 2008 after the prior year audit to address concerns related to tracking meal counts for requesting reimbursement. These changes would provide the tracking of meals weekly for each site and maintain a monthly running total for requesting reimbursement at the end of each month. The auditor reviewed the total sheets for each week and attempted to agree these to the month end total report, however a variance was noted between the weekly totals and the amount reported on the reimbursement request for June 2009. Furthermore, the auditor also noted that a July 2009 U.S. Department of Agriculture (USDA) and KDE site review determined that HFS overstated its meal count for June 2009 and would need to submit an amended request to correct the error.

Good internal controls dictate that procedures be implemented to ensure that requests for reimbursement be adequately supported and properly reviewed to ensure accuracy.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-57: Metro Housing And Family Services Should Improve Controls Over Reimbursement Requests To Ensure They Are Adequately Supported And Properly Reviewed (Continued)

Recommendation

We recommend HFS improve controls to ensure that all reimbursement requests are supported with appropriate documentation, and that the requests, along with supporting documentation, are properly reviewed to ensure accuracy. Furthermore, HFS should implement procedures to ensure all supporting documentation is maintained in accordance with appropriate record retention policies.

Management's Response and Corrective Action Plan

CAP is committed to continuous improvement in our SFSPC program. While HFS recognizes that there are improvements to be made, as the auditor noted the SFSPC program for fiscal year 2009 was reviewed by the USDA and KDE. Several points in the auditors comment and recommendation are directly related to comments made by the USDA and KDE. The auditors note that HFS repaid KDE due to an "overstatement of meal counts in the prior year". The auditors finding is not an accurate reflection of the repayment. The USDA and KDE reviewed all supporting documentation and determined that, due to documentation requirements, some of the meals served to children were considered disallowed (see Appendix B, Attachment M). In addition, several of the changes in documentation for reimbursement requests were made at the specific request of the USDA and/or KDE.

CAP will continue to work with the HFS Business Office to improve controls and to ensure that all reimbursement requests are supported with appropriate documentation and are properly reviewed to ensure accuracy. The following procedures will be implemented and/or reinforced to ensure appropriate cash management:

- *CAP will provide a Summary Report to the HFS Business Office by the close of each month to ensure accurate reimbursement requests are submitted to KDE*
- *CAP will provide a Detail Report to the HFS Business Office by the close of each month to ensure accurate reimbursement requests are submitted to KDE*
- *CAP Program Manager will complete and maintain the Daily Meal Count Form weekly. The weekly data form will be compiled monthly in a Meal Summary Report.*
- *CAP will ensure that each monthly Meal Summary Report is reflective of the amounts of meals served weekly. The supportive documentation will be reviewed and signed by the program manager on a monthly basis to ensure accuracy.*

Auditor's Reply

The auditor acknowledges Metro's distinction between overstatements of meal counts versus the disallowance of meals. Although ultimately, in either case the repayment to KDE is the unfortunate result, and the auditors appreciate CAP's efforts toward improvements to avoid those results in the future.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-58: KentuckianaWorks Should Document Its Review Of Contractors Paid With Federal Funds To Ensure Compliance With Procurement, Suspension and Debarment Requirements

Federal Program: CFDA 17.258, 17.259, 17.260 Workforce Investment Act Cluster
Federal Agency: U.S. Department of Labor
Compliance Area: Procurement and Suspension and Debarment
Amount of Questioned Costs: $0

During our audit, we tested internal controls and compliance with the grant requirements applicable to the Workforce Investment Act (WIA) Cluster (CFDA 17.258, 17.259, 17.260), administered by KentuckianaWorks. Our review identified that KentuckianaWorks had inadequate policies and procedures in place to effectively monitor procurement and suspension and debarment (PSD) requirements as required for federal grants.

Inquiry with KentuckianaWorks staff identified there was no clear authority or responsible agency assigned to ensuring compliance with federal PSD requirements. KentuckianaWorks indicated that Metro Division of Purchasing was responsible for ensuring vendors were not on the federal Excluded Parties List System (EPLS), while Metro Division of Purchasing contended that the responsibility resided in each department.

Failure to comply with federal PSD requirements jeopardizes the agency's ability to adequately monitor grant expenditures, which could lead to vendors that have been debarred or suspended from receiving federal funds being granted contracts paid with federal grant funds. This noncompliance could lead to questioned costs, and ultimately loss of the related federal funding for the department.

OMB Circular A-133, Section I Suspension and Debarment states:

> Non-Federal entities are prohibited from contracting with or making sub awards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded.

Good internal controls dictate documentation of the determination of suspension or debarment for contractors who receive federal funds as payment for goods or services provided. Documenting the determination of suspension or debarment ensures compliance with federal awards requirements.

Recommendation

We recommend KentuckianaWorks assign a staff person to document a review of the EPLS for all contractors paid with federal funds. Furthermore, the department should provide adequate training to ensure the employee is knowledgeable about the PSD requirements and on how to meet this responsibility.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-58: KentuckianaWorks Should Document Its Review Of Contractors Paid With Federal Funds To Ensure Compliance With Procurement, Suspension and Debarment Requirements (Continued)

Management's Response and Corrective Action Plan

Metro Government is currently in the process of updating our Procurement policies. Metro Government will include detailed instructions for the EPLS review prior to any bid evaluation process and the addition of standard language in all contracts stating that if a vendor is placed on the EPLS they must notify Metro Government within 24 hours. Metro Government plans to have this policy in place before the close of fiscal year 2010.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-59: KentuckianaWorks Should Implement Controls To Ensure Direct Grant Charges Are Traceable Between LeAP And The SEFA

Federal Program: CFDA 17.258, 17.259, 17.260 Workforce Investment Act Cluster
Federal Agency: U.S. Department of Labor
Compliance Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Amount of Questioned Costs: $0

During our audit of the Workforce Investment Act (WIA) Cluster (CFDA 17.258, 17.259, 17.260), we were unable to determine the appropriateness or completeness of expenditures coded to each grant because expenditures recorded in the government's financial accounting system, LeAP did not agree to the Schedule of Expenditures of Federal Awards (SEFA), which was prepared using supporting schedules maintained by the KentuckianaWorks Fiscal Officer. The auditor noted that although the LeAP expenditures reconciled to the SEFA in total for all grants in the WIA Cluster, there was no reconciliation of expenditures reported for each CFDA number reported on the SEFA for the WIA Cluster. In inquiring as to the preparation of amounts reported on the SEFA, the auditor was provided with information indicating that rather than reporting direct costs applicable to each CFDA, the Fiscal Officer prepares an allocation of direct charges based on the average number of participants served in each of the WIA programs as reported in Client Track, a programmatic participant database. This impairs the ability of Metro Finance, the agency, or the auditor to identify the direct costs associated with each individual grant.

Metro Finance prepares the SEFA, and for the WIA Cluster, it obtains the federal expense totals by CFDA from the KentuckianaWorks Fiscal Officer. Due to the complexity of the allocation worksheet maintained by the KentuckianaWorks Fiscal Officer, Metro Finance and others cannot reconcile direct charges coded to each grant fund throughout the year to the amounts reported on the SEFA. The complexity of the allocation of these charges is unusual and appears to be unnecessary, and also increases the risk that the allocations could contain a material error that goes undetected.

Sound accounting principles require that amounts recorded on the SEFA be reconciled to the underlying accounting records for the grant. Furthermore, adequate controls should be in place to ensure that reported information based on complex allocations at a minimum be capable of and subject to review by individuals knowledgeable of grant accounting.

Recommendation

We recommend KentuckianaWorks work with Metro Finance to implement controls permitting direct grant charges to be easily traceable between the financial accounting system and the SEFA. In the event that cost allocations are necessary, the agency should work to improve its current methodology and should train other individuals in the department to perform the allocations in order to permit appropriate checks and balances and minimize the potential for errors.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-59: KentuckianaWorks Should Implement Controls To Ensure Direct Grant Charges Are Traceable Between LeAP And The SEFA (Continued)

Management's Response and Corrective Action Plan

The working papers that the fiscal officer maintains for WIA reporting provide the means to reconcile LeAP unit activity balances to specific awards and then to groupings by CFDA. During the first weeks of the audit, KentuckianaWorks requested that the auditor walk through the information included in the documentation with the fiscal officer to ensure the auditor was able to follow the documentation. However, this opportunity was not availed.

KentuckianaWorks does not allocate direct costs, only pooled costs are allocated. The rules under which Federal awards are managed dictate that costs that benefit more than one cost objective be pooled and allocated to the benefiting cost objectives in a reasonable manner. KentuckianaWorks charges all direct costs to the benefiting cost objectives (funding stream). These direct charges include payments for training and supportive services, as well as payments for rent, contractual and other expenditures that benefit only one funding stream. However, a significant share of KentuckianaWorks expenditures benefit more than one funding stream, and are therefore pooled and allocated. The auditor was provided with a copy of the cost allocation that documents all aspects of the calculation. KentuckianaWorks' cost allocation complies in all respects with the rules for cost allocation, including those contained in OMB Circular A-87.

KentuckianaWorks maintains supplemental workpapers that display the specific charging of expenditures to each formula award and each supplemental award. As noted above, KentuckianaWorks invited the auditor to sit and walk through these papers with the fiscal officer.

KentuckianaWorks will work with Economic Development to formulate and implement a plan to ensure a backup is trained in the cost allocation and grant reporting activities. These processes will be documented and any areas for improvement or simplification will be evaluated. However, we wish to reiterate that these processes comply with all applicable rules and regulations and there is a limit to simplification for a rather involved set of processes.

Again, KentuckianaWorks welcomes the opportunity to meet with the auditors to walk through the cost allocations and other grant-related activities.

Auditor's Reply

We would like to note that although KentuckianaWorks indicates in its response that the Fiscal Officer was not provided an opportunity to walk through the allocation methodology, the auditor did spend a number of hours with the Fiscal Officer going over the allocations in detail. The auditor also requested an electronic copy of the allocation worksheet to review it in detail, but the Fiscal Officer indicated the file size of the Excel worksheet was too large to provide. This highlights both the complexity of the calculation and the risk created by having the entire responsibility for the allocation in the hands of one person.

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FINDING 09-METRO-59: KentuckianaWorks Should Implement Controls To Ensure Direct Grant Charges Are Traceable Between LeAP And The SEFA (Continued)

Auditor's Reply (Continued)

Also, KentuckianaWorks indicates that it does not allocate direct charges. However, the current methodology does not permit a reconciliation between direct charges, the financial accounting system (LeAP) and the grant's SEFA information. The agency response explains this is due to the significant cost pooling required, but its account structure is not sufficient to differentiate between direct costs and those that are pooled and allocated, thereby leading to a problem reconciling between the detail posted to the general ledger and the amounts reported in the SEFA. This is why a detailed review of its allocation calculations is needed, and also why the auditors recommended that others within the department be trained to perform the allocations.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-60: KentuckianaWorks Should Segregate The Duties Of Its Fiscal Officer

Federal Program: CFDA 17.258, 17.259, 17.260 Workforce Investment Act Cluster
Federal Agency: U.S. Department of Labor
Compliance Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Amount of Questioned Costs: $0

During our audit of Workforce Investment Act (WIA) Cluster grants (CFDA 17.258, 17.259, 17.260) administered by KentuckianaWorks, we noted that the Fiscal Officer has multiple duties including:

- Preparing, submitting, and signing the quarterly draw down reports;
- Approving and submitting payment documents/invoices to Metro Finance;
- Creating cost allocations for WIA grants, and preparing journal vouchers to transfer the funds according to the allocations;
- Collecting employee activity sheets as the basis for payroll cost allocations;
- Receiving Notices of Funds Availability (NFA) and applying them to each WIA fund.

Based on these duties, there appears to be a lack of segregation of incompatible job duties since the Fiscal Officer has the ability to prepare, record, transfer, and reconcile expenditure and revenue activity for WIA grants.

A lack of segregation of duties is caused by a single employee being assigned to incompatible job duties without apparent compensating controls. As a result of this, there is an increased risk that misstatements, errors, fraud and/or grant noncompliance may occur and go undetected.

Additionally, the duties outlined above are extensive responsibilities for one individual, which puts KentuckianaWorks at risk of losing a significant knowledge base in the absence of this employee.

Good internal controls dictate that incompatible duties be properly segregated to reduce the risk of error, misstatement, fraud and/or grant noncompliance.

Recommendation

We recommend KentuckianaWorks segregate duties of its Fiscal Officer to share incompatible job duties among multiple staff to ensure appropriate segregation of duties, and establish policies and procedures to ensure appropriate checks and balances are in place and effective.

Management's Response and Corrective Action Plan

KentuckianaWorks acknowledges that the fiscal officer has many duties that include payment approval, cost allocation, and grant reporting. Early in fiscal year 2010, the fiscal officer discontinued signing any invoices for which he will approve the payment document. The agency employee responsible for the applicable program or function must approve the invoice. These individuals include program managers, the executive director and the communications director.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-60: KentuckianaWorks Should Segregate The Duties Of Its Fiscal Officer (Continued)

Management's Response and Corrective Action Plan (Continued)

KentuckianaWorks will work with Economic Development to explore ways to strengthen controls and oversight to the duties performed by KentuckianaWorks' fiscal officer and will document these policies and procedures. While we recognize that there is room for improvement, KentuckianaWorks must also devise and implement a process that does not unnecessarily add costs to these efforts.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-61: KentuckianaWorks Should Ensure WIA Grant Funds Are Used Only For Costs Allowable To WIA Programs

Federal Program: CFDA 17.258, 17.259, 17.260 Workforce Investment Act Cluster
Federal Agency: U.S. Department of Labor
Compliance Area: Allowable Costs/Cost Principles
Amount of Questioned Costs: $6,000

During our audit, we reviewed invoices for adequate supporting documentation for expenditures associated with Workforce Investment Act Cluster grants (CFDAs 17.258, 17.259, 17.260) administered by KentuckianaWorks. Our testing identified invoices for cleaning services for the building housing both WIA and non-WIA programs. Based on the expenditures reviewed, it appears that the entire cost of the cleaning service was charged to the WIA grants, rather than allocated between WIA and non-WIA programs.

Although WIA funds may be used for cleaning services, the cost must be allocated in such a way that WIA only pays for the portion of the service benefitting WIA programs. Therefore, the portion of the cleaning costs attributed to non-WIA programs is unallowed, and results in questioned costs. The annual expense of these cleaning services was approximately $11,988 during FY 2009. Since these costs should be pro-rated based on square footage each program occupied in the building, or other reasonable criteria, the auditor was not able to determine the amount of known questioned costs associated with these services. However, with more than 50% of the building space occupied by a non-WIA program, the likely amount of questioned costs exceeds $6,000.

Sound accounting standards require that all expenditures be properly supported to ensure that all costs are necessary and allowable.

OMB Circular A-87, Section C, Part 1 and Part 3 states,

> (1) To be allowable under Federal awards, costs must meet the following general criteria… a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards; b. Be allocable to Federal awards under the provisions of this Circular.
> (3) Allocable costs. a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Recommendation

We recommend KentuckianaWorks implement procedures for reviewing invoices to ensure that only the costs allocable to WIA objectives are charged to the grant.

Management's Response and Corrective Action Plan

Metro Government, respectfully, does not believe this comment should be included in the auditor's report. An allocation of these charges is not needed as the janitorial company used by

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-61: KentuckianaWorks Should Ensure WIA Grant Funds Are Used Only For Costs Allowable To WIA Programs (Continued)

Management's Response and Corrective Action Plan (Continued)

KentuckianaWorks issues separate invoices for each location that is cleaned. In this particular instance there are two programs that share office space in the same building. A separate invoice is sent monthly for each program and the invoices are charged to the specific programs in Metro Government's financial system. Invoices documenting the separation of these charges were sent to the auditors for their review.

Auditor's Reply

We reviewed invoices submitted by Metro during its response period, and were unable to clear this finding. The invoice tested by the auditor clearly detailed services provided for two floors of the building charged to the WIA grant. As noted in the finding, the auditors obtained information that WIA did not occupy most of that space. A separate invoice provided by Metro did detail additional cleaning charges, but did not detail the services provided or the areas included. Auditors indicated that the finding could be cleared if the janitorial contract clearly identified the services billed and allocated to each grant program, including the areas or square footage covered, but Metro indicated the contract did not contain that detail.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-62: Metro Public Works Should Develop A Policy To Review Certified Contractor Payrolls For Compliance With Davis Bacon Act

Federal Program: CFDA 20.205 Highway Planning and Construction
Federal Agency: U.S. Department of Transportation
Compliance Area: Davis Bacon Act
Amount of Questioned Costs: $0

During the review of Davis Bacon Act requirements related to the Highway Planning and Construction Grant (CFDA 20.205), we tested certified payroll reports submitted to Metro Public Works by contractors paid with grant funds. Our testing indicated that certified payrolls from contractors on federal highway projects are not being reviewed. This noncompliance was also noted in the prior year audit.

Metro Public Works does not have adequate policies and procedures requiring project managers to review the certified payrolls. Without review of the certified payrolls, Metro Public Works cannot be certain that contractors are paying the appropriate prevailing wage in accordance with Davis Bacon Act requirements. Therefore, the department cannot determine that contractors paid with federal funds are compliant with the requirements of the grant.

Proper internal controls over federal Davis Bacon Act requirements dictate that documentation should be maintained to support a review of contractors' payrolls is performed to verify compliance with prevailing wage rates.

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the U.S. Department of Labor regulations (29 CFR part 5, "Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction"). 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) (29 CFR sections 5.5 and 5.6).

Recommendation

We recommend Metro Public Works develop a policy for its project managers to review all certified payrolls for their assigned projects to ensure contractors are paying wages in accordance with prevailing wage rates published by the U.S. Department of Labor.

Management's Response and Corrective Action Plan

PWA is currently working with the Office of Internal Audit to develop an appropriate process to review certified payroll reports provided by contractors. The certified payrolls will be reviewed by Project Managers and Supervisors to ensure compliance with Davis Bacon. Any issues regarding prevailing wage samples will be forwarded to PWA to rectify with the contractor.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-62: Metro Public Works Should Develop A Policy To Review Certified Contractor Payrolls For Compliance With Davis Bacon Act (Continued)

Management's Response and Corrective Action Plan (Continued)

Metro Government is in the process of developing a policy related to Davis-Bacon compliance. This policy will specifically address the department's responsibility for monitoring compliance, maintaining appropriate documentation of compliance, and, if a department determines it is more appropriate for a second department to oversee Davis-Bacon compliance, the need to document the agreement between the two departments.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-63: Metro Public Works Should Pay Invoices In Accordance With KRS 65.140 And Should Implement Procedures To Improve Its Cash Management

Federal Program: CFDA 20.205 Highway Planning and Construction
Federal Agency: U.S. Department of Transportation
Compliance Area: Allowable Costs/Cost Principles; Cash Management
Amount of Questioned Costs: $0

During our audit of the Highway Planning and Construction Grant (CFDA 20.205) administered by Metro Public Works, the auditor reviewed all FY 2009 invoices and corresponding requests for reimbursement related to two projects, Johnsontown Road and African American Heritage Center renovation project. During that review, we noted the following exceptions:

- Of the 27 invoices processed for the two projects, we found eight invoices were paid more than 30 business days after the invoice date.
- We also noted requests for reimbursement processed more than 60 business days after the payment date for 14 of the 27 invoices tested. The range of days between the payment of the invoice and requests for reimbursement for these 14 invoices was between 64 and 214 days. One project, the African American Heritage Center renovation project, filed only one request for reimbursement for the entire fiscal year.

It appears project managers did not review and approve invoices for the projects in a timely manner, and that requests for reimbursement were not consistent during the year. The auditor recognizes that in the situation of late payments, the agency may not have received invoices from vendors in a timely manner. However, the auditor did not see consistent date-stamping on invoices to indicate receipt dates. Payments should be made within 30 business days of receipt in order to comply with KRS 65.140 and to avoid possibly penalties for late payment.

Also, the auditor judgmentally used the 60 day timeframe for requesting reimbursement of federal expenditures as a reasonable measure to evaluate the department’s cash management procedures. Although this timeframe did not violate grant requirements, it does indicate the government subsidizes its federal grants longer than necessary, with the longest period of time noted to be 214 days.

The Johnsontown Road project agreement states that invoices should be submitted on a monthly basis for reimbursement of legitimate expended funds. Although it doesn’t stipulate the timeframe of payments to include in the request, good internal controls dictate that the monthly request for reimbursements be up-to-date and contain expenditures to date.

KRS 65.140 states,

> … (2) Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor.

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FINDING 09-METRO-63: Metro Public Works Should Pay Invoices In Accordance With KRS 65.140 And Should Implement Procedures To Improve Its Cash Management (Continued)

(3) An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor's invoice by the purchaser.

Recommendation

We recommend Metro Public Works comply with KRS 65.140 and grant agreements by implementing procedures to improve the timeliness of payments and requests for reimbursement.

Management's Response and Corrective Action Plan

While improvements can always be made, it is important to note that the auditors finding notes that the timeframe used by PWA did not violate grant requirements. The auditors comment also gives no indication that any standard accounting practices are not being followed. The comment states "the auditor judgmentally used the 60 day timeframe" which is simply a subjective opinion not supported by definitive procedures as to requesting reimbursements. As PWA explained to the auditor, the time frame to seek reimbursement on this project can take over 60 days due to the level of review involved. Once an invoice is received by PWA, the invoice goes to the project manager for initial review. The project manager then schedules and conducts a site visit. Upon completion on the site visit, the project manager authorizes the invoice for payment and forwards the invoice to the PWA Business Office. The Business Office prepares a payment document which is then sent to OMB for processing. In compliance with State requirements, PWA must obtain a copy of the cashed check as supporting documentation for reimbursement due to a policy change at the State in 2009. Due to this requirement, reimbursement requests can only be submitted after the vendor has cashed the check. Further, the Johnsontown Road project contract's language states "Submit, if desired, invoices on a monthly basis for reimbursement of legitimate expended funds" – this information was provided to the auditor to indicate that PWA was not violating the contract terms.

PWA did find one invoice that had been over-looked for payment under the Johnsontown Road project. Project managers have been alerted to the need to thoroughly review expenditures on projects to ensure invoices are received from vendors as projects progress. Metro Government as a whole makes every effort to ensure that all invoices are processed within KRS requirements. Metro Government is in the process of implementing an imaging program that will require all invoices to be scanned and processed electronically. One of the goals of this process is to improve processing and payment time.

Auditor's Reply

Metro's response indicates standard accounting practices or grant requirements were not violated, but we would like to reiterate that the finding does identify a statutory noncompliance for nonpayment of invoices within 30 days. Also, the only judgmental variable related to the

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-63: Metro Public Works Should Pay Invoices In Accordance With KRS 65.140 And Should Implement Procedures To Improve Its Cash Management (Continued)

Auditor's Reply (Continued)

cash management test is to identify how long after payment of invoices did Metro subsidize the costs of its federal program. The 60-day criterion was applied for reasonableness, as stated in the finding, and the auditors acknowledged it is not a requirement. However, the point made is that Metro should take opportunities to improve its cash management and reduce the time it subsidizes the cost of federal programs. Although the department may have procedures in place that take longer than two months to complete, some payments were made as much as 214 days prior to the reimbursement request, which indicates consistent procedures are not in place to minimize the government's subsidy of federally funded programs. Therefore, the auditors reiterate the need for Metro to implement procedures to meet statutory requirements and improve its cash management.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-64: Metro Public Works Should Improve Policies And Procedures Over Subrecipient Monitoring

Federal Program: CFDA 20.205 Highway Planning and Construction
Federal Agency: U.S. Department of Transportation
Compliance Area: Subrecipient Monitoring
Amount of Questioned Costs: $0

During our audit of the Highway Planning and Construction Grant (CFDA 20.205), we noted Metro Public Works does not have policies in place to document and report the monitoring of subrecipients. In two projects tested for subrecipient monitoring, the Johnsontown Road project and the African American Heritage Center renovation project, the auditor determined that although some monitoring procedures were in place, the monitoring processes were not consistent and did not always document the monitoring procedures performed or the monitoring results. We noted that the Johnsontown Road project utilized a checklist for documenting monitoring procedures performed, whereas the African American Heritage Center monitoring was evidenced only by weekly meeting minutes attended by the project manager and pictures of the project.

Metro Public Works does not have uniform policies and procedures for documenting site visits, such as standard criteria for monitoring the subrecipient, results of site visits, communication of results to the subrecipient or department supervisor, and/or follow up on noted deficiencies. Without an agency wide policy and uniform procedures for monitoring subrecipients, there is an increased risk that subrecipients may be overlooked, that project managers could miss key monitoring criteria for the project, and that problems could go unreported and therefore, uncorrected.

It should be noted that consistent monitoring and reporting may have assisted the government in identifying and correcting problems noted by the Kentucky Transportation Cabinet in regard to the African American Heritage Center renovation project. That report, issued in August 2009, also identified weaknesses in monitoring of this project.

Proper internal controls to ensure compliance with subrecipient monitoring requirements relevant to federal programs dictate that consistent processes be put in place for documenting the results of monitoring procedures performed.

Recommendation

We recommend Metro Public Works develop agency wide policies and procedures for monitoring subrecipients on federal projects. These procedures should include the documentation of criteria reviewed during the monitoring review, documentation of the results, communication of the results to the subrecipient and department supervisors, and finally, follow-up of identified weaknesses.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-64: Metro Public Works Should Improve Policies And Procedures Over Subrecipient Monitoring (Continued)

Management's Response and Corrective Action Plan

PWA follows the requirements of each contract for subrecipient monitoring. PWA will review the check list used on the Johnsontown Road project as a framework to implement on other capital projects. Metro Government will follow the auditor's recommendation and implement a policy that provides guidance on following monitoring requirements. Each contract may vary on the monitoring requirements and this guidance will ensure that Metro Government has a consistent process in place.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-65: Metro Public Works Should Document Its Review Of Contractors Paid With Federal Funds To Ensure Compliance With Procurement, Suspension and Debarment Requirements

Federal Program: CFDA 20.205 Highway Planning and Construction
CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency: U.S. Department of Transportation
U.S. Department of Homeland Security
Compliance Area: Procurement and Suspension and Debarment
Amount of Questioned Costs: $0

During our audit, we tested internal controls and compliance with the grant requirements applicable to the Highway Planning and Construction grant (CFDA 20.205) and Public Assistance Grants (CFDA 97.036), administered by Metro Public Works. Our review identified that Metro Public Works had inadequate policies and procedures in place to effectively monitor procurement and suspension and debarment (PSD) requirements as required for federal grants.

Inquiry with Metro Public Works staff identified there was not clear authority or responsible agency assigned to ensure compliance with federal PSD requirements. Metro Public Works indicated that Metro Division of Purchasing was responsible for ensuring vendors were not on the federal Excluded Parties List System (EPLS), while Metro Division of Purchasing contended that the responsibility resided in each department.

Failure to comply with federal PSD requirements jeopardizes the department’s ability to adequately monitor grant expenditures, which could lead to vendors that have been debarred or suspended from receiving federal funds being granted contracts paid with federal grant funds. This noncompliance could lead to questioned costs, and ultimately loss of the related federal funding for the department.

OMB Circular A-133, Section I Suspension and Debarment states:

> Non-Federal entities are prohibited from contracting with or making sub awards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded.

Good internal controls dictate documentation of the determination of suspension or debarment for contractors who receive federal funds as payment for goods or services provided. Documenting the determination of suspension or debarment ensures compliance with federal awards requirements.

Recommendation

We recommend Metro Public Works assign a staff person to document a review of the EPLS for all contractors paid with federal funds. Furthermore, the department should provide adequate training to ensure the employee is knowledgeable about the PSD requirements and on how to meet this responsibility.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-65: Metro Public Works Should Document Its Review Of Contractors Paid With Federal Funds To Ensure Compliance With Procurement, Suspension and Debarment Requirements (Continued)

Management's Response and Corrective Action Plan

PWA will follow the Auditor's recommendation by assigning and training a staff person to review the Federal Excluded Parties List System (EPLS). PWA will train this staff person on the required checklist process for verifying that a contractor is not on the EPLS and to ensure consistency in the application review process.

Metro Government is currently in the process of updating our Procurement policies. Metro Government will include detailed instructions for the EPLS review prior to any bid evaluation process and the addition of standard language in all contracts stating that if a vendor is placed on the EPLS they must notify Metro Government within 24 hours. Metro Government plans to have this policy in place before the close of fiscal year 2010.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-66: Metro Public Works Should Implement Policies And Procedures To Ensure Adequate Supporting Documentation For JV Transactions

Federal Program: CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Amount of Questioned Costs: $0

During our audit, we reviewed journal vouchers (JV) processed to allocate expenditures associated with Public Assistance Grants (CFDA 97.036) administered by Metro Public Works. Our review identified instances in which JVs were prepared without sufficient supporting documentation to adequately justify the amount posted. The auditor noted instances in which the only support was a summary upload spreadsheet or project worksheet (PW) cover page, without additional supporting documentation sufficient to ensure the accuracy or necessity of the transfer.

It appears Metro Public Works failed to attach adequate justification to its JVs, and Metro Finance did not require additional supporting documentation be provided to support all amounts posted. Although individuals processing and authorizing JVs may know the justification for the transaction at the time it occurs, adequate supporting documentation should be available for audit and federal monitoring to support the transactions recorded in the general ledger.

The failure to maintain sufficient supporting documentation for transactions posted in the general ledger increases the risk of inaccurate or unnecessary amounts posted to federal grant accounts. Inevitably, this could contribute to inaccurate financial reporting, including the Schedule of Financial Awards (SEFA) and other required federal reports, and decrease program manager's ability to properly monitor accounts to ensure only allowable costs are recorded in grant funds.

Sound grants management practices require that JVs be properly supported to justify the necessity for the transactions impacting the accounting of federal funds.

Recommendation

We recommend Metro Public Works implement policies and procedures to ensure adequate supporting documentation be attached to all JV transactions. Furthermore, we recommend Metro Finance scrutinize JVs more closely and require sufficient supporting documentation be submitted before a JV is processed.

Management's Response and Corrective Action Plan

PWA detailed to the auditors FEMA's method of calculating labor and equipment costs and how that calculation does not necessarily correlate to how labor and equipment is charged on Metro Government's financial system. While the methods of calculation are different, FEMA has accepted the information as appropriate documentation and is paying based on the information submitted. FEMA calculations for labor are not done on an hourly rate and all other benefits are calculated as percentage. Metro Government's payroll system is specific as to benefit

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-66: Metro Public Works Should Implement Policies And Procedures To Ensure Adequate Supporting Documentation For JV Transactions (Continued)

Management's Response and Corrective Action Plan (Continued)

calculations. PWA offered all labor Project Worksheet documents along with internal payroll documents to show that the employees noted on the Project Worksheet did indeed earn their pay with this agency. But due to differences in the calculation methods of FEMA and Metro Government, there is not a one-to-one correlation.

The equipment charges also vary greatly in their calculation. FEMA stipulates that PWA use their hourly rates by equipment class. This FEMA list was provided to the auditor. Metro Government does not incur equipment cost based on hourly rates but on a work order system by equipment unit. Again, it was explained that there was not a one-to-one correlation between the equipment Project Worksheet and Metro Government's internal costing methods. PWA provided the detail of each piece of equipment listed that was utilized for storm clean-up and that the equipment did belong to this agency.

Auditor's Reply

Payroll charges for employees are charged to their normal cost centers and then transferred by JVs to FEMA cost centers to allocate the federal portion of the allowable costs. Although the auditor would not anticipate a specific one-to-one relationship as suggested in Metro's response, we would anticipate supporting documentation which adequately identifies expenses as being allowable and properly calculated. There should be some correlation between the grant files and the grant accounting posted to the general ledger. Without appropriate supporting documentation justifying the charges, this correlation is difficult to make, which increases the risk that charges could be posted to the grant's general ledger accounts in error.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-67: Metro Public Works Should Improve Internal Controls Procedures Over Preparation And Review Of Project Worksheets

Federal Program: CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Allowable Costs/Cost Principles
Amount of Questioned Costs: $4,012

During our audit, we reviewed transactions related to Public Assistance Grants (CFDA 97.036) administered by Metro Public Works for adequate internal controls and compliance with federal requirements applicable to the grant. Our review identified the following internal control deficiencies and noncompliances:

- An incorrect state road reduction rate was used in preparing a project worksheet (PW), which was ultimately requested for reimbursement. Project worksheets (PWs), document eligible grant expenditures. This error resulted in a questioned cost of $4,012.
- Auditor calculations identified that an incorrect reimbursement rate was utilized by Metro Public Works to allocate the state share of disaster expenses. Invoice totals were calculated using a 12.5% state share, which did not agree to the grant agreements or correspondence provided by Kentucky Emergency Management (KyEM). No questioned costs were identified as the auditor determined that state payments were properly made accordingly at the contracted rate.

Inadequate internal controls over the preparation and review of PWs allowed for calculation errors to go undetected, which caused unallowable costs to be submitted for reimbursement. Discussion with agency personnel identified that FEMA representatives prepare the PW, although they are approved by Metro Public Works. A secondary review was not conducted by Metro Public Works to ensure that the PW's were correctly calculated.

Additionally, Metro Public Works was unfamiliar with the stipulations identified within each grant agreement or the further correspondence provided by KyEM which supported the state reimbursement rate to be utilized for allocating expenses.

The failure to implement adequate policies and procedures over PW preparation, and the coding of expenditures could lead to reporting errors, questioned costs, and other noncompliances.

Additionally, the use of an incorrect reimbursement rate for the allocation of costs and subsequent reimbursement requested from state funding could also lead to questioned costs and noncompliances with grant requirements.

Sound grants management practices require sufficient internal controls exists to ensure that documents impacting the grant funding be properly prepared and adequately reviewed. Additionally, grant agreements between the Metro of Kentucky and Louisville Jefferson County Emergency Management Agency for Hurricane Ike identify the state's share of assistance is 12%. Further correspondence identified that approved funding for the 2009 Ice Storm will be 25% State share for Category A, debris removal from public roads, and 12% for Categories B through G.

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FINDING 09-METRO-67: Metro Public Works Should Improve Internal Controls Procedures Over Preparation And Review Of Project Worksheets (Continued)

Recommendation

We recommend Metro Public Works strengthen internal controls over the preparation of PWs and subsequent allocations of expenses to ensure that calculations are accurate. Metro Public Works should become more familiar with the requirements stipulated in each grant agreement to ensure correct reimbursement rates are utilized in allocating expenses for requests for reimbursement.

Management's Response and Corrective Action Plan

Metro Government has historically, and will continue to, work very closely with FEMA during disasters and disaster recovery. As the auditor notes, there is a need to develop formal policies and procedures to ensure consistency between the reporting and documentation maintained across all Metro Government departments and therefore we will follow the auditor's recommendation and develop formal policies and procedures related to managing disaster grants and recovery efforts. This policy will incorporate the documentation requirements from FEMA and outline the role of Metro Government as a whole and the roles of each department in the event there is a disaster. Once this policy is developed, Metro Government will provide this guidance to all departments. This policy will include detailed instruction over the preparation and review of Project Worksheets and the allocations of amounts received.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-68: Metro Public Works Should Strengthen Procedures Over Payroll Expenditures Charged To FEMA Disaster Grants

Federal Program: CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Allowable Costs/Cost Principles
Amount of Questioned Costs: $0

During our audit, we reviewed payroll summary forms and timesheets to ensure adequate internal controls were in place and appropriate documentation was maintained to support payroll related expenditures associated with Public Assistance Grants (CFDA 97.036) administered by Metro Public Works. We noted the following internal control weaknesses and noncompliances:

- Three instances in which supporting documentation either lacked a supervisor signature, or that the specific employee daily job summary form could not be located to support the amount recorded on the forced labor sheet; and
- One instance in which an employee's timecard documented six hours of overtime, but the daily job summary worksheet and the Project Worksheet's (PW) forced labor form documented a total of eight hours of overtime. A Metro Public Works payroll official indicated that the timecards were not reviewed, but that the daily job summary worksheets were relied on. The auditor was unable to determine which document, the daily job summary worksheet or timecard, accurately depicted the employee's overtime.

Effective internal controls and procedures for the completion and subsequent review of daily job summary forms and timesheets were not in place to effectively monitor the reporting of storm damage labor costs. Additionally, since the Metro Public Works payroll official does not review the actual time cards, it is assumed that the summary sheets accurately depict the amount to be reported on the forced labor sheets. Without a reconciliation between the daily job summary forms and the timecards, any errors would go undetected.

The failure to ensure all timesheet supporting documentation is accurate, properly prepared, and adequately reviewed could lead to unnecessary payroll expenditures as well as inaccurate financial reporting and noncompliance with grant requirements.

Sound accounting principles and effective internal controls require that timesheet data and related supporting documentation be properly prepared, reconciled, and reviewed/signed by a supervisor to confirm that payroll costs are accurate and allowable.

Recommendation

We recommend Metro Public Works strengthen internal controls to ensure all documentation supporting labor charges are accurate, reconciled to supporting information, and signed by a supervisor to confirm that the payroll expenditures charged to federal grants are allowable and reasonable.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-68: Metro Public Works Should Strengthen Procedures Over Payroll Expenditures Charged To FEMA Disaster Grants (Continued)

Management's Response and Corrective Action Plan

PWA will address with management the accountability issues regarding accurately documenting all payroll time. Business office staff will ensure that all timesheets are signed and any that are not signed will be sent back to the supervisors to ensure compliance.

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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-69: Metro Public Works Should Ensure All Documentation Is Maintained To Support Grant Charges And Implement Procedures To Reduce Errors In Expenses Submitted For Reimbursement

Federal Program: CFDA 97.036 Disaster Grants - Public Assistance (Presidentially Declared Disasters)
Federal Agency: U.S. Department of Homeland Security
Compliance Area: Activities Allowed or Unallowed; Allowable Costs/Cost Principles
Amount of Questioned Costs: $6,533

During our audit, we reviewed expenditures for adequate supporting documentation associated with Public Assistance Grants (CFDA 97.036). Our review identified the following noncompliances and questioned costs:

- Two project worksheets (PW) identified materials maintained in inventory were utilized to make repairs during the declared disaster. Further review of the supporting documentation revealed that the invoices for the individual parts used did not support the amount requested for reimbursement. The auditor did not identify questioned costs associated with these errors because the inaccuracies noted regarding the cost of parts were both over and under the amount requested for reimbursement.
- The auditor noted one instance in which a JV transaction lacked adequate supporting documentation to support the expenditure, resulting in federal questioned costs of $957.
- One expenditure transaction invoiced the cost of two storm sirens to be reimbursed. The auditor noted only one storm siren was utilized as noted on the project worksheet, resulting in federal questioned costs of $5,576.

Metro Public Works lacks adequate internal controls over costs submitted for reimbursement. The effect of the department's lack of proper review procedures and failure to maintain appropriate supporting documentation resulted in questioned costs totaling $6,533.

Sound accounting standards require that all expenditures be properly supported to ensure all costs are necessary and allowable. All supporting documentation should be readily available and accurately confirm the amounts to be requested for reimbursement.

Recommendation

We recommend Metro Public Works strengthen internal controls to ensure adequate supporting documentation is maintained, and all expenditures submitted for reimbursement is thoroughly reviewed to ensure accuracy in amounts charged to federal grants.

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Significant Deficiencies Relating to Internal Controls and/or Noncompliances

FINDING 09-METRO-69: Metro Public Works Should Ensure All Documentation Is Maintained To Support Grant Charges And Implement Procedures To Reduce Errors In Expenses Submitted For Reimbursement (Continued)

Management's Response and Corrective Action Plan

Metro Government will follow the auditor's recommendation and develop formal policies and procedures related to managing disaster grants and recovery efforts. This policy will incorporate the documentation requirements from FEMA and outline the role of Metro Government as a whole and the roles of each department in the event there is a disaster. Once this policy is developed, Metro Government will provide this guidance to all departments.

It is important to note that FEMA agents write the Project Worksheets from supporting documentation that is applicable to the category. In the instance of the first and third points listed, incorrect information was transferred from the invoice to the Project Worksheet. The actual invoices reviewed were correct as to charges. Metro Government will include instructions in the policies and procedures currently in development as to each department's responsibility for reviewing information included in Project Worksheets.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Embargoed Until 9am Wednesday March 24, 2010

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Material Weaknesses					
(1) Audit findings that have been fully corrected:					
FY 08	08-HFS02-12	Management Within The Department Of Housing And Family Services Did Not Follow Policies And Procedures To Ensure A Proper Internal Control Structure Existed Throughout The Department	Various	$0	Resolved during FY 09.
FY 08	08-HOME 11-19	The Department Of Housing And Family Services Lacks Ethical Guidelines Which Resulted In Conflicts Of Interest	14.239	$0	Resolved during FY 09.
FY 08	08-HOME 13-21	The Department Of Housing And Family Services Lacks Internal Controls Over The Home Repair Program	14.239	$11,000	Due to improvements, this finding is downgraded to a verbal recommendation in FY 09.
FY 08	08-HOME/ CDBG19-26	The Department Of Housing And Family Services Did Not Perform Sufficient Subrecipient Monitoring Of HOME And CDBG Grant Programs	14.218 14.239	$0	Resolved during FY 09.
FY 08	08-HOME/ CDBG20-27	The Department Of Housing And Family Services Did Properly Administer HOME And CDBG Grant Programs	14.218 14.239	$0	Resolved during FY 09.
FY 08	08-CDBG 22-29	The Department Of Housing And Family Services Did Not Meet Earmarking Requirements For CDBG	14.218	$0	Resolved during FY 09.
FY 08	08-CDBG 23-30	The Department Of Housing And Family Services Expended Grant Funds For Unallowable Costs	14.218	$46,884	Resolved during FY 09.
FY 08	08-LEAD 24-31	The Department Of Housing And Family Services Has Not Ensured Reconciliation Of Grant Expenditures To Grant Reimbursements – Leaving Approximately $103,000 Of Expenditures Unreimbursed	14.900	$0	Resolved during FY 09.

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Material Weaknesses					
(1) Audit findings that have been fully corrected (Continued):					
FY 08	08-LEAD 25-32	The Department Of Housing And Family Services Did Not Properly Administer The Lead-Based Paint Hazard Control Grant - Which Put $1,000,000 Of Grant Funds In Jeopardy Of Being Forfeited Back To HUD	14.900	$0	Resolved during FY 09.
FY 08	08-LEAD 26-33	The Department Of Housing And Family Services Submitted Reports To HUD That Were Not Accurate	14.900	$0	Resolved during FY 09.
FY 08	08-SPC29-36	The Department Of Housing And Family Services Did Not Submit Required Reports To HUD In A Timely Manner	14.238	$0	Resolved during FY 09.
FY 08	08-LIHEAP 34-41	The Department Of Housing And Family Services Did Not Ensure All Case Files Are Properly Maintained And Safeguarded – Leaving $2,516 Of Undocumented Expenditures	93.568	$2,516	Resolved during FY 09.
FY 08	08-LIHEAP 35-42	The Department Of Housing And Family Services Did Not Follow Established Procedures For Hiring Temporary/Seasonal Employees	93.568	$0	Resolved during FY 09.
FY 08	08-SFSPC 37-44	The Department Of Housing And Family Services Expended $319,904 Of Summer Food Service For Children Funds For Unallowable Expenditures	10.559	$319,904	Resolved during FY 09.
FY 08	08-SFSPC 39-46	The Department Of Housing And Family Services Did Not Comply With Subrecipient Monitoring Requirements	10.559	$0	Resolved during FY 09.

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Material Weaknesses					
(1) Audit findings that have been fully corrected (Continued):					
FY 08	08-SFSPC 40-47	The Department Of Housing And Family Services Overspent Summer Food Service Program For Children Funds By $259,040 Due To Accounting Records That Were Not Properly Reconciled	10.559	$0	Resolved during FY 09.
FY 08	08-SFSPC 41-48	The Department Of Housing And Family Services Did Not Ensure All Eligible SFSPC Sites Were Properly Approved	10.559	$0	Resolved during FY 09.
(2) Audit findings not corrected or partially corrected:					
FY 08	08-HFS01-11	Management Of Department Of Housing And Family Services Lacked Basic Understanding Of Programs Within The Department And Did Not Provide Staff Proper Direction And Oversight Of Procedures And Processes, Increasing The Risk For Fraud Or Error	Various	$0	See 09-METRO-37.
FY 08	08-HFS03-13	The Department Of Housing And Family Services Has Not Corrected Multiple Prior Audit Findings	Various	$0	See 09-METRO-37.
FY 08	08-HFS04-14	Management In Department Of Housing And Family Services Did Not Follow Policies And Procedures Established For Payroll	Various	$0	See 09-METRO-37 & 09-METRO-40.
FY 08	08-HOME 08-16	The Department Of Housing And Family Services Did Not Follow The Grant Requirement To Spend HOME Program Income Before Draw Down Of Entitlement Funds	14.239	$0	See 09-METRO-51.
FY 08	08-HOME 09-17	The Department Of Housing And Family Services Lacks Internal Controls Over The Use Of HOME Funds For Down Payment Assistance	14.239	$0	See 09-METRO-52.
FY 08	08-HOME/ CDBG/ LEAD10-18	The Department Of Housing And Family Services Lacks Oversight And Accountability For The Investor Loan Database	14.239 14.218 14.900	$0	See 09-METRO-50.

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Material Weaknesses					
(2) Audit findings not corrected or partially corrected (Continued):					
FY 08	08-HOME/ CDBG16-23	The Government's Accounting System (LeAP) Does Not Reconcile To The Federal IDIS System	14.218 14.239	$0	See 09-METRO-47.
FY 08	08-HOME/ CDBG18-25	The Department Of Housing And Family Services Did Not Follow Cash Management Requirements For HOME And CDBG	14.218 14.239	$0	Resolved for CDBG, but not for HOME. See 09-METRO-40.
FY 08	08-SPC27-34	The Department Of Housing And Family Services Did Not Properly Administer The Shelter Plus Care – Which Put Approximately $348,000 Of Grant Funds In Jeopardy Of Being Forfeited Back To HUD	14.238	$0	See 09-METRO-41.
FY 08	08-SPC28-35	The Department Of Housing And Family Services Did Not Draw Down All Allowable Costs For The Shelter Plus Care Grant	14.238	$0	See 09-METRO-41.
FY 08	08-SPC30-37	The Department Of Housing And Family Services Lacks Internal Controls Over The Shelter Plus Care Rental Assistance Program	14.238	$2,839	See 09-METRO-55.
FY 08	08-SPC31-38	The Department Of Housing And Family Services Did Not Meet The Matching Requirements For The Shelter Plus Care Grant	14.238	$34,733	See 09-METRO-41.
FY 08	08-SPC32-39	The Department Of Housing And Family Services Lacks Policies And Procedures To Ensure Landlords Are Not Receiving Other HUD Funding In Addition To Shelter Plus Care Funding For The Same Rental Unit	14.238	$0	See 09-METRO-55.
FY 08	08-LIHEAP 33-40	The Department Of Housing And Family Services Did Not Submit LIHEAP Reimbursement Requests According To Procedures Set Forth By The Funding Agency	93.568	$0	See 09-METRO-53.

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Material Weaknesses					
(2) Audit findings not corrected or partially corrected (Continued):					
FY 08	08-LIHEAP 36-43	The Department Of Housing And Family Services Did Not Properly Ensure And Document All Recipients Met The Eligibility Requirements For The Low Income Home Energy Assistance Program - Creating $4,102 Of Questioned Expenditures	93.568	$4,102	See 09-METRO-54.
FY 08	08-SFSPC 38-45	The Department Of Housing And Family Services Was Denied $104,014 Of Reimbursements Due To Inaccurate And Untimely Reimbursement Requests	10.559	$0	Partially resolved. See 09-METRO-57.
FY 08	08-CSBG 43-50	The Department Of Housing And Family Services Did Not Properly Spend Community Services Block Grant Funds	93.569	$2,361	Partially resolved. See 09-METRO-37.
FY 08	08-01	Internal Controls, Management, And Staff Training In The Department Of Housing And Family Services Should Be Improved And Monitoring Processes Implemented	Various	$0	See 09-METRO-37.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings to report in this category.

(4) Audit finding no longer valid or does not warrant further action:

There were no findings to report in this category.

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Significant Deficiencies					
(1) Audit findings that have been fully corrected:					
FY 08	08-HOME 07-15	The Department Of Housing And Family Services Did Not Provide Written Policies And Procedures For HOME Report Preparation And Ensure Knowledgeable Supervisory Review Of Reports	14.239	$0	Resolved during FY 09.
FY 08	08-HOME/ CDBG14-22	The Department Of Housing And Family Services Did Not Identify An IDIS Administrator And Did Not Provide Training To IDIS Team Members	14.218 14.239	$0	Resolved during FY 09.
FY 08	08-CSBG 42-49	The Department Of Housing And Family Services Did Not Provide Adequate Guidance When Distributing Federal Funds To Other Agencies	93.569	$34,760	Resolved during FY 09.
FY 08	08-06	Matching Requirements Mandated By The Grant Agreement Were Not Met	20.205	$0	Resolved during FY 09.
FY 08	08-10	The SEFA Reporting Methodology Should Be Evaluated	Various	$0	Resolved during FY 09.
FY 08	08-08	Special Supplemental Nutrition Program Recorded A Duplicate Entry	10.557	$0	Due to improvements, this finding was downgraded to a control deficiency in FY 09.
(2) Audit findings not corrected or partially corrected:					
FY 08	08-HOME 12-20	The Department Of Housing And Family Services Lacks Internal Controls Over Administration Of The Tenant Based Assistance Program	14.239	$0	See 09-METRO-39.
FY 08	08-HOME/ CDBG17-24	The Department Of Housing And Family Services Did Not Ensure That The Responsibility For Checking Suspension And Debarment Is Assigned To Someone Knowledgeable Of Grant programs	14.218 14.239	$0	See 09-METRO-48.

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
Significant Deficiencies					
(2) Audit findings not corrected or partially corrected (Continued):					
FY 08	08-HOME/ CDBG21-28	The Department Of Housing And Family Services Did Not Ensure That The Required Annual Performance Reports for HOME And CDBG Were Supported By The Government's Accounting System (LeAP), Completed By Knowledgeable Staff, Reviewed By Knowledgeable Management, And Submitted Timely	14.218 14.239	$0	See 09-METRO-38.
FY 08	08-02	Training And Coordination Of Business Managers Should Be Improved	Various	$0	See financial statement finding 09-METRO-15.
FY 08	08-03	Improve Accounting For HUD Loan Balances	14.239 14.218 14.900	$0	See 09-METRO-50.
FY 08	08-07	Non-Compliance With The Davis Bacon Act Was Noted	20.205	$0	See 09-METRO-62.
FY 08	08-09	Grant Reimbursement Requests Are Not Submitted On A Timely Basis	20.205	$0	See 09-METRO-63.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings to report in this category.

(4) Audit finding no longer valid or does not warrant further action:

There were no findings to report in this category.

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APPENDICES

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
APPENDIX A
FOR THE YEAR ENDED JUNE 30, 2009

List of Metro Agencies audited by CPA firms that were included in the Metro Single Audit:

Metro Agency	**Firm**
Capital Projects Corporation	Strothman & Company 1600 Waterfront Plaza 325 West Main Street Louisville, KY 40202
Firefighters' Pension Fund*	Strothman & Company 1600 Waterfront Plaza 325 West Main Street Louisville, KY 40202
Louisville Revenue Commission	Strothman &Company 1600 Waterfront Plaza 325 West Main Street Louisville, KY 40202
Louisville/Jefferson County Riverport Authority	Strothman & Company 1600 Waterfront Plaza 325 West Main Street Louisville, KY 40202
Louisville Science Center	Chilton & Medley 2500 Meidinger Tower 462 South Fourth Street Louisville, KY 40202
Louisville Water Company	Strothman & Company 1600 Waterfront Plaza 325 West Main Street Louisville, KY 40202
Mass Transit Trust Fund	Strothman & Company 1600 Waterfront Plaza 325 West Main Street Louisville, KY 40202

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
APPENDIX A
FOR THE YEAR ENDED JUNE 30, 2009
(CONTINUED)

Metro Agency	Firm
Metropolitan Sewer District (MSD)	Crowe Horwath 9600 Brownsboro Road Suite 400 Louisville, KY 40252
Parking Authority of River City, Inc. (PARC)	Strothman & Company 1600 Waterfront Plaza 325 West Main Street Louisville, KY 40202
Policemen's Retirement Fund*	Strothman & Company 1600 Waterfront Plaza 325 West Main Street Louisville, KY 40202
Transit Authority of River City, Inc. (TARC)	McCauley Nicholas 702 North Shore Drive Suite 500 Jeffersonville, IN 47130

*Agreed upon procedures engagement only. Audit report was not issued.

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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
APPENDIX B

ATTACHMENTS TO MANAGEMENT'S RESPONSES
IN THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Metro included references to attachments in several of its management responses in the Schedule of Findings and Questioned Costs. These attachments may be found at the Auditor of Public Accounts' website, www.auditor.ky.gov in pdf format. For web readers, please click on the attachment name and you will be redirected to that attachment.

Attachment A

Attachment B

Attachment C

Attachment D

Attachment E

Attachment F

Attachment G

Attachment H

Attachment I

Attachment J

Attachment K

Attachment L

Attachment M

Embargoed Until 9am Wednesday March 24, 2010