Budget and Finance Committee
Kevin Stinnett - Chair
Ed Lane – Vice Chair
Jim Gray
Linda Gorton
Chuck Ellinger
Andrea James
Tom Blues
Julian Beard
George Myers
Peggy Henson

AGENDA

BUDGET AND FINANCE COMMITTEE

December 8th, 2009

1:00 P. M.

1. Review and Discussion of FY 2010 Financials for October 2009 – Rumpke

2. Internal Audit Quarterly Update – Sahli

   - Internal Audit Process (p 1)

   - Division of Revenue Tax Gap Audit Summary of Audit Results (p 2-3)

3. General List of Recommendations From Council Links - Stinnett

   - Recommendations Schedule II (p 4-6)

   - Update on General Services Link Recommendations – Cole

4. Discussion on the Proposed Reduction to Council Office Budget

   - Listing of Possible Scenarios (p 7)

   - Schedules Detailing Reductions within Admin & District Budgets (p 8-11)

THE INTERNAL AUDIT PROCESS

The mission of the Office of Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the Urban County Government's operations. It helps the local government accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

It is important to understand that internal controls are the responsibility of management. Each individual Department and Division has the basic responsibility for establishing, maintaining, and periodically reviewing its internal control systems. The objectives of the Office of Internal Audit are to assist members of the Urban County Government in the effective discharge of their responsibilities by furnishing them with analyses, recommendations, counsel, and information concerning the activities reviewed and by promoting effective internal control at a reasonable cost. This is achieved via the internal audit process described below.

Once an activity within a Division is selected for an audit, meetings are held with responsible management to obtain an overview of the activity's internal controls and to identify any process concerns management may have. The next step is the evaluation of specific procedures developed by management to provide sufficient internal control over the activity being audited to ensure it is meeting management's objectives. This step is followed by detail testing of transactions to determine the controls are in fact functioning as intended.

From these steps audit findings identifying opportunities for improvement in the control structure, and in some instances opportunities to improve the operational effectiveness and efficiency of the activity being audited, are developed. The findings are described in a draft version of the audit report, along with recommendations for correcting the control deficiencies, which are then discussed with management in an exit conference. Management is then given a reasonable amount of time to provide a written response to the findings describing how the deficiencies are being addressed, which will be included in the final version of the audit report. The audit report is then issued to the Mayor, the Urban County Council, the Internal Audit Board, the Senior Advisor for Management, and other senior management (Commissioner, Director, etc.) with direct authority to correct the deficiencies and to provide oversight of the correction process. The finalized audit report is then posted on the Office of Internal Audit web page for public information, generally within one to two weeks after issuance.

Some findings are quite minor in nature and are communicated to responsible management verbally, while others considered more significant are included in the audit report. **It should be noted that findings are a common result of an audit, and do not in and of themselves indicate carelessness or negligence on the part of management.** Deficiencies identified during an audit can be the result of many factors, some of which may be only partly controllable by management. In addition, internal audit reports are designed to draw attention to opportunities for improvement and therefore do not address the areas of satisfactory performance that may be noted during an audit. Therefore, Council is encouraged to maintain a balanced perspective regarding the nature and extent of internal audit findings.

DIVISION OF REVENUE TAX GAP AUDIT
SUMMARY OF AUDIT RESULTS

The Office of Internal Audit completed an audit of the Division of Revenue Tax Gap Processes on September 24, 2009. Our audit focused on the Tax Gap of the Occupational License Fee. Tax Gap is defined as the difference between what taxpayers should have paid and what they actually paid on a timely basis. Understanding and monitoring the Tax Gap allows management to make better decisions about tax policy, allocation of resources for tax administration, and to manage fiscal challenges and responsibilities.

The general control objectives for the audit were to determine that:

- **Written procedures exist for monitoring the Tax Gap**
- **The collection process is sufficient to identify businesses who have not filed taxes**
- **Underreported taxes are identified and collected in a timely manner**
- **Interest and Penalties are appropriately applied and collected**

The following findings were reported to senior management:

- Significant technological improvements are needed to address Tax Gap issues. The Division of Revenue should seek funding to obtain a tax software program with the capability to manage large amounts of data. This software package needs, at a minimum, the ability to employ system logic to identify delinquent taxpayers, maintain an accurate accounts receivable database that generates reports enabling Division of Revenue personnel to track the aging of tax accounts receivable and to effectively manage delinquent accounts, have the capability to automatically generate notices to taxpayers who have missed filing deadlines, track the filing status of businesses that have been granted filing extensions, and automatically calculate penalties and interest.
- The Computer Services Mainframe system report of all entities or individuals who have not paid taxes contained significant inaccuracies and omissions. This is the same report that Computer Services provides to the Division of Revenue to assist them in collecting unpaid taxes.
- More than 10,000 blank period-end dates were found in the License Year-to-Date Table that contains all returns filed and/or paid. We also noted 249 data validity errors in the related Mainframe Master File. This indicates edit checks were either non-existent or ineffective in the License Year-to-Date Table and Mainframe Master File.
- Penalties and/or interest charges were not consistently applied against late payments of Net Profit returns and Employee Withholding returns. The purpose of this finding was to raise management's awareness of the potential effect of unapplied interest and penalties on late returns. It was outside the scope of this audit to evaluate the circumstances surrounding specific instances of unapplied penalty and/or interest, or to provide a list of specific accounts to be re-billed, or

of specific collectable amounts. The Division of Revenue performed their own detailed examination of the circumstances surrounding the top 55 Net Profit transactions and top 115 Withholding transactions identified in our tests, and extrapolated approximately $1,000,000 in uncollected interest and penalties over the three-year period covered by our tests.

- The Revenue Compliance Section receives checks for the late payment of taxes, for amounts other than the actual tax due, or for other reasons such as address changes. Once the related account is researched, they forward these checks to the Revenue Processing Section for processing and deposit. These checks should be logged, endorsed, and deposited by the Compliance Section to increase security of funds. Copies or scanned images of such checks should be forwarded to the Revenue Processing Section for processing purposes.
- The Division of Revenue external website contains License Fee Regulations that have not been updated since November 1, 2000. This website should be updated to inform the public of all fees, penalties, and interest related to Ordinance 13-7, which became effective on December 6, 2007.
- Occupational License fee tax forms must be manually filed by taxpayers and manually reviewed by Division of Revenue auditors. The Division of Revenue should consider a timetable to automate Occupational License fee tax filing and review.

Management's responses to the findings indicated appropriate action would be taken to correct the deficiencies identified. Management and staff were very courteous and cooperative throughout the course of the audit.

GENERAL LIST OF RECOMMENDATIONS FROM COUNCIL LINKS FY 2010

I. Public Works & Environmental Quality - Andrea James, Chair

a. **Motion to place the issue of Nepotism** into the Intergovernmental Committee for discussion

b. Request for a presentation to the Council Regarding the Urban Services Fund

c. Request a list of ordinance and laws that require funds to be allocated

d. **PDR highlighted matching** grant opportunity for additional $1M. Recommendation was to ask the Mayor to add this as a late item to the MPB

II. General Services - Parks and Recreation - Ed Lane, Chair

a. **Park and Recreation's reorganization plan to increase** operational **efficiency (3 vs. 5 operational entities). In accordance with master plan** for parks.

b. Cross-marketing promotions between parks, businesses and non-profit organizations, (advertising, prizes, signage, events, underwriting fees, etc.)

c. Budget increase to add deputy director of enterprise position ($95.0K include benefits). This job position is authorized but was not funded in the mayor's recommended budget

III. General Services - Facilities and Fleet Management - Ed Lane, Chair

a. Evaluate of all real properties to determine highest and best use, condition of the property (deferred maintenance), and current utilization

b. **Review all existing lease agreements – many properties do not have written agreements**

c. Enter into a written lease agreement with all non-LFUCG tenants occupying city owned buildings

d. Estimate the market rental value of the real property asset being used by a non-LFUCG tenant

e. Allocate (using cost accounting) all operating expenses applicable to each real estate property-utilities, repairs, maintenance, security, insurance, management, accounting capital investment, interest, consulting and brokerage services, etc.

f. Have each user of LFUCG real estate pay its occupancy costs (insurance, management, utilities, janitorial, repairs, maintenance, and renovations). Creates management opportunities to reduce costs and improve operational efficiencies.

GENERAL LIST OF RECOMMENDATIONS FROM COUNCIL LINKS FY 2010

g. Dispose of surplus properties – saves $5-$7 per s.f. in occupancy costs, puts property back on the tax roll, creates employment opportunities.

h. **Create criteria which define surplus property. Prepare a list of recommended properties for disposal.**

i. All public safety vehicles be serviced by fleet services – except for heavy and specialized equipment (EMS, Fire engines, mobile units, etc.) which may be excluded upon the request of the Chief of Police or Fire Chief.

j. Link existing communication services for public safety, police, fire, 911, DEEM, EMS, etc., and coordinate equipment, facilities, etc. with centralized control. New system would make direct communications between all Public Safety divisions possible.

k. Centralize accounting for all fleet maintenance and fleet operating costs so maintenance and operating efficiencies can be evaluated and analyzed by managers.

l. **Chargeback full fleet maintenance costs to each department**

m. Approve $4 million capital line item for soft costs (site, size, design, etc.) for new City Hall. All budgeted expenditures must be approved by Council.

n. Acquire PeopleSoft real estate and fleet management accounting modules so Department of Finance/Accounting can establish accurate cost centers for each real property and the Division of Facilities and Fleet Management will have the tools necessary to manage maintenance and operational expenses.

o. Support of CIO recommendation to purchase PeopleSoft real estate and fleet management software and accounting programs.

IV. Finance, Budgeting, Social Services, Outside Agencies - Peggy Henson, Chair

a. Motion by CM George Myers that all partner/outside agencies that are currently covered under the LFUCG health care plan move to their own health care plan effective July 1, 2010, with the exception of the Health Department, Housing Authority and County Attorney to have an effective date of January 1, 2010. This motion was seconded by CM Andrea James. CM Myers asked that this motion be discussed before the full Council

V. Public Safety - K. C. Crosbie, Chair

i. Division of Police - Purchase of 6 radar trailers for use by districts funding will come from asset forfeiture account. The purchase price will be $69K

ii. Division of Police - Request that a formal recommendation on the COPS program be made to update funding and the number of police officers that may be funded from the Stimulus Program. If funding is not provided then a discussion needs to be held regarding the hiring of additional police officers.

iii. Division of Emergency Management - pull out proposals for radio system upgrade and PSOC to have a separate Conversation to discuss all options

GENERAL LIST OF RECOMMENDATIONS FROM COUNCIL LINKS FY 2010

VII. Other Recommendations as submitted by CM George Myers

i. Downtown development - road blocks to completing projects (get list from Bill Lear).

ii. Right of Way Signs Administrative Hearing's Board Enabling Legislation from Frankfort

iii. Healthcare ordinance tying benefits to W-2 removing outliers

iv. Authorized strength – Once Council places positions in the budget and attaches funding, does a Mayor have the discretion to not fill those positions?

v. LexTran – revisit expectations tied to the referendum by taskforce

vi. Boards and commissions – implement training program that incorporates State Auditor's recommendations for all appointed boards and commission members.

vi. Policy outlining the process for determining how police department spends revenue from confiscated property.

viii. Legislation requiring audit on all dedicated funds.

ix. I would like to hear a presentation from Michael Allen regarding his Wellness Plan, if he is ready to present.

x. Any other policies / legislation that has been discussed or recommended this year, particularly outside agencies.

PROPOSED REDUCTIONS IN THE COUNCIL OFFICE BUDGET FY 2010

Scenario No. 1	Amount
a. One week furlough for all council staff	$21,052
b. Reduce reduce professional services in the admin budget	4440
c. Reduce NDFs per district by 5000	75000
d. Eliminate outside travel in the admin budget	1500
e. Reduce food and household in the admin budget	308
f. Reduce equipment less than $5000 in each district and at-large by $200	3000
g. Do not pay the Kentucky League of Cities Dues	13000
Total	**$118,300**

Scenario No. 2	Amount
a. Two week furlough for all council staff	$42,104
b. Reduce reduce professional services in the admin budget	4196
c. Reduce NDFs per district by 4000	60000
d. Eliminate outside travel in the admin budget by $1,500 and reduce travel in the council districts by $700.	12000
Total	**$118,300**

Scenario No. 3	Amount
a. Two week furlough for all council staff	$42,104
b. Reduce reduce professional services in the admin budget	4440
c. Reduce NDFs per district by 3000	45000
d. Eliminate outside travel in the admin budget by $1,500 and reduce travel in the council districts by $500.	9000
e. Reduce operating supplies and expense in each council district by $300	4500
f. Reduce food and household in the admin budget	256
g. Do not pay the Kentucky League of Cities Dues	13000
Total	**$118,300**

GENERAL FUND
COUNCIL OFFICE - PROPOSED REDUCTIONS
SUMMARY

Account	Description	Original 2010 Budget	Remaining Balance 11/18/09	Scenario No. 1 Reductions	Scenario No. 2 Reductions	Scenario No. 3 Reductions
63121	Non-Civil Service Salaries	1,083,080	692,905	(21,052)	(42,104)	(42,104)
71207	Professional Services - Outside Labor	2,440	2,440	(2,440)	(2,196)	(2,440)
71214	**Professional and Contract Svcs - NDF**	150,000	129,045	(75,000)	(60,000)	(45,000)
71299	Professional Services - Other	6,050	5,280	(2,000)	(2,000)	(2,000)
74102	**Conferences and Other Training - Travel**	40,000	38,132	(1,500)	(12,000)	(9,000)
75101	**Operating Supplies & Expenses**	46,500	38,904			(4,500)
75102	Food & Household Items	7,570	6,176	(308)		(256)
75801	**Equipment Less Than $5000**	10,690	9,031	(3,000)		
76101	Repairs and Maintenance	1,200	1,200			
77801	**Dues & Subscription - (KLC Dues)**	29,550	24,000	(13,000)		(13,000)
95101	Copy Machines & Lease Purchase	15,000	10,976			
	Total Operating Expenses	**1,392,080**	**958,089**	**(118,300)**	**(118,300)**	**(118,300)**

GENERAL FUND
COUNCIL OFFICE - PROPOSED REDUCTIONS
Administration Budget - FY 2010

Account	Description	Original 2010 Budget	Remaining Balance As Of 11/18/2009	Scenario No. 1 Reductions	Scenario No. 2 Reductions	Scenario No. 3 Reductions
63121	Non-Civil Service Salaries - (Furloughs)	1,083,080	692,905	(21,052)	(42,104)	(42,104)
71207	Professional Services - Outside Labor	2,440	2,440	(2,440)	(2,196)	(2,440)
71299	Professional Services - Other	2,000	2,000	(2,000)	(2,000)	(2,000)
74102	Conferences and Other Training - (Outside Travel)	2,500	1,522	(1,500)	(1,500)	(1,500)
75101	Operating Supplies & Expenses	7,500	4,159			
75102	Food & Household Items	4,570	3,330	(308)		(256)
75801	Equipment Less Than $5000	3,190	2,154			
76101	Repairs and Maintenance	1,200	1,200			
77801	Dues & Subscription - (KLC Dues)	29,550	24,000	(13,000)		(13,000)
95101	Copy Machines & Lease Purchase	15,000	10,976			
	Total Operating Expenses	**1,151,030**	**744,686**	**(40,300)**	**(47,800)**	**(61,300)**

GENERAL FUND
COUNCIL OFFICE - PROPOSED REDUCTIONS
At Large & District Budgets - FY 2010

Account	Description	Original 2010 Budget	Remaining Balance 11/18/09	Scenario No. 1 Reductions	Scenario No. 2 Reductions	Scenario No. 3 Reductions
71214	Professional and Contract Svcs - (NDF's)	150,000	129,045	(75,000)	(60,000)	(45,000)
71299	Professional Services - Other	4,050	3,280	0	0	0
71301	Rent/Lease Charges	300	260	0	0	0
74102	Conference & Other Training - (Outside Travel)	37,500	36,610	0	(10,500)	(7,500)
74201	Business Travel	4,500	2,818	0	0	0
75101	Operating Supplies & Expenses	39,000	34,743	0	0	(4,500)
75102	Food & Household Items	3,000	2,765	0	0	0
75801	Equipment Less Than $5000	7,500	7,377	(3,000)	0	0
	Total Operating Expenses	**245,850**	**216,898**	**(78,000)**	**(70,500)**	**(57,000)**

GENERAL FUND
COUNCIL OFFICE - PROPOSED REDUCTIONS

At Large & District Budgets - FY 2010

Account	Description	Original 2010 Budget	Scenario No. 1 Reductions	Scenario No. 2 Reductions	Scenario No. 3 Reductions
71214	Professional and Contract Svcs - NDF	10,000	(5,000)	(4,000)	(3,000)
71299	Professional Services - Other	270	0	0	0
71300	Rent/Lease Charges	20	0	0	0
74102	Conferences and Other Training - (Outside Travel)	2,500	0	(700)	(500)
74201	Business Travel	300	0	0	0
75101	Operating Supplies & Expenses	2,600	0	0	(300)
75102	Food & Household Items	200	0	0	0
75801	Equipment Less Than $5000 - Minor Equip	500	(200)	0	
	Total Operating Expenses	**16,390**	**(5,200)**	**(4,700)**	**(3,800)**