Budget and Finance Committee
Dr. Stevens - Chair
Jim Gray
Linda Gorton
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Jay McCord
Ed Lane - Vice-Chair
Kevin Stinnett – Vice-Chair
George Myers
Don Blevins

AGENDA

BUDGET AND FINANCE COMMITTEE

October 23, 2007

1:00 P. M.

- **Quarterly Report of Internal Audits - Sahli**
    - **The Internal Audit Process p. 1**
    - **Summary of Audit Results, Senior Citizens Center Audit p. 2**
    - **Summary of Audit Results, Bid & Request for Proposal Process Audit p. 3**

- **General Review of Budget In Brief Booklet FY 2008 – Deaton**

  (Please bring Budget In Brief Booklets distributed by the budgeting department recently)

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.

SENIOR CITIZENS CENTER AUDIT
SUMMARY OF AUDIT RESULTS

The Office of Internal Audit completed an audit of the Senior Citizens Center (SCC) on July 26, 2007. The SCC is a multi-purpose facility providing services to persons 60 and older in Fayette County. Designed to provide a single entry point for various services, it houses several outside agencies serving the elderly community.

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

- Revenues were promptly deposited and correctly recorded in the accounting records
- Expenditures were properly authorized and made in accordance with established policies and procedures
- Approval and data entry functions over revenue and expenditures were appropriately segregated
- Program income and donation funds were correctly recorded and maintained separately for grant matching purposes
- Appropriate permits and licenses were maintained to indemnify LFUCG from liability

The following findings were reported to senior management:

- Collection duties needed to be segregated
- Donations and other funds received by the SCC needed to be deposited in a more timely manner
- Written procedures addressing collection recording, reporting, security, and deposit needed to be established
- Late payment of invoices (i.e. paid significantly after 30 days) were noted
- SCC management needed to confer with Law and Risk Management to determine if their practice of renting SCC parking spaces to the public during UK football games creates liabilities to LFUCG (this was a risk observation only; no statute, regulation, or policy regarding rental practices had been violated)

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.

BID & REQUEST FOR PROPOSAL PROCESS AUDIT
SUMMARY OF AUDIT RESULTS

The Office of Internal Audit completed an audit of the Bid & Request for Proposal (RFP) process on August 20, 2007. In general, all purchases for more than $20,000 made by the Lexington Fayette Urban County Government are required by law to be purchased via competitive sealed Bids. Requests for Proposal (RFPs) govern the selection of professional services costing $25,000 or more.

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

- The Bid and RFP solicitation, selection, and award processes were consistent with LFUCG policies and regulatory requirements
- Records were maintained to support all competitively Bid contracts and RFPs
- Single source contracts had proper justification
- Emergency purchases were made only during an emergency event

The following findings were reported to senior management:

- RFP selection criteria documentation (notes, discussion summaries, votes, etc.) were being destroyed, and needed to be retained to provide transparency and accountability to the RFP award process
- Bid logs needed to consistently include information on all bids and RFPs received for a project by the Division of Purchasing
- Departments and Divisions needed to be formally instructed to provide original contracts and two copies to the Council Clerk's Office in order to comply with Urban County Charter recordkeeping requirements

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.