Ellinger
Lane
Gorton
Kay
Farmer
Myers
Beard
Lawless
Blues

AGENDA
Budget & Finance Committee
August 30, 2011
1:00 P.M.

1.	**Monthly Budget Report**	(1-11)
2.	**Time Table for FY 11 CAFR**	(9-10)
3.	**FY 10 Management Letter Discussion**	(12-21)
4.	**Budget Process Brainstorming Ideas**	
5.	**Items Referred to Committee**	(22)

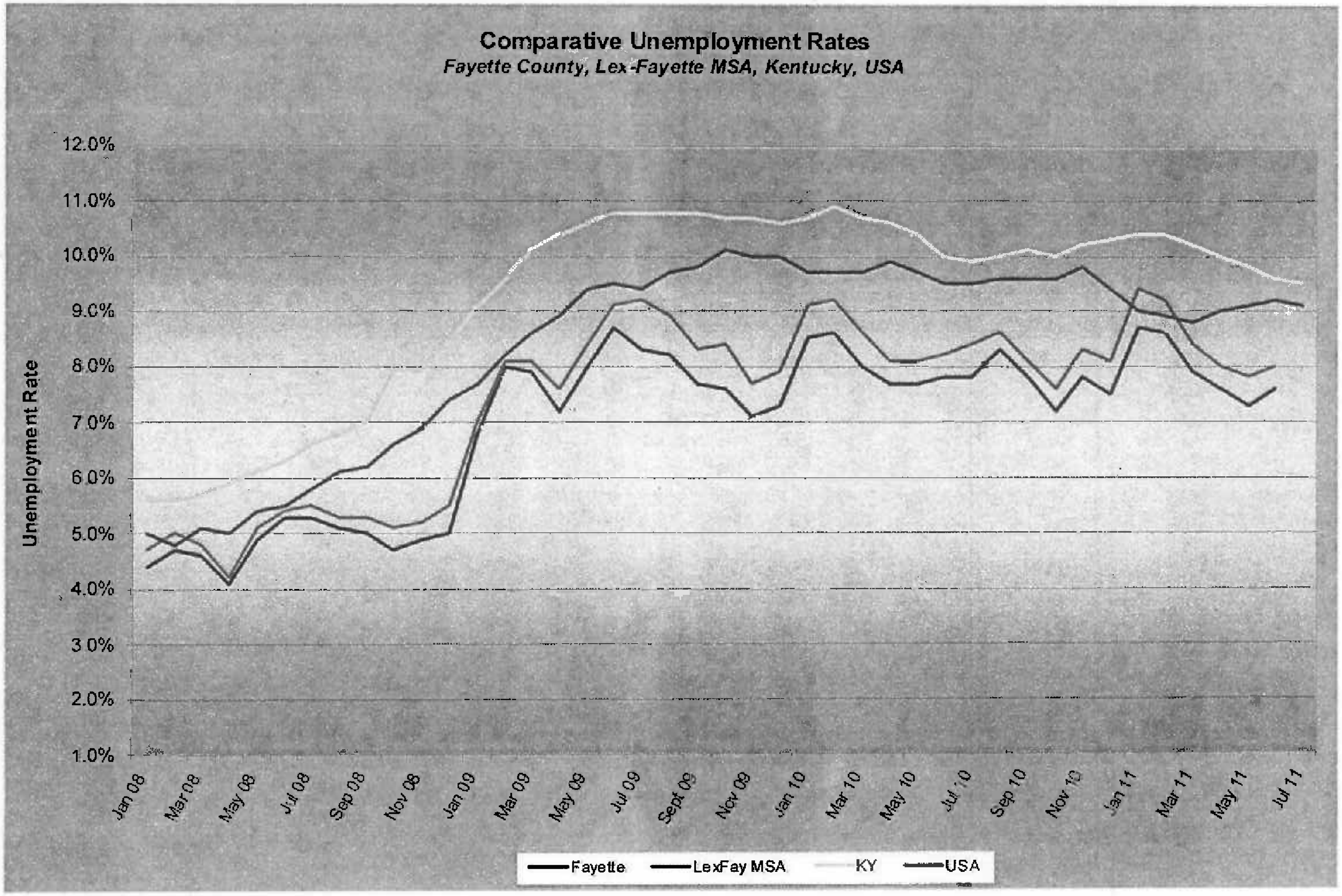
"Budget & Finance Committee, to which shall be referred matters relating to the Department of Finance and Administration and its divisions, and any related partner agencies, the urban county courts and constitutional officers, fiscal operations of the government, revenues and expenditures of the government, and organization changers which affect the fiscal operations of the government. Additionally, this committee shall review the final audit report and management letter of the accounting firm recommended by the Mayor and selected by the Council to conduct the annual financial audit of the Urban County Government and shall report its findings concerning the same to the Mayor and Council for appropriate action." Council Rules & Procedures, Section 2.102 (1)
Effective January 1, 2011. Adopted by Urban County Council October 14, 2010

Committee Meeting Schedule
August 30 September 27 October 25 November 29

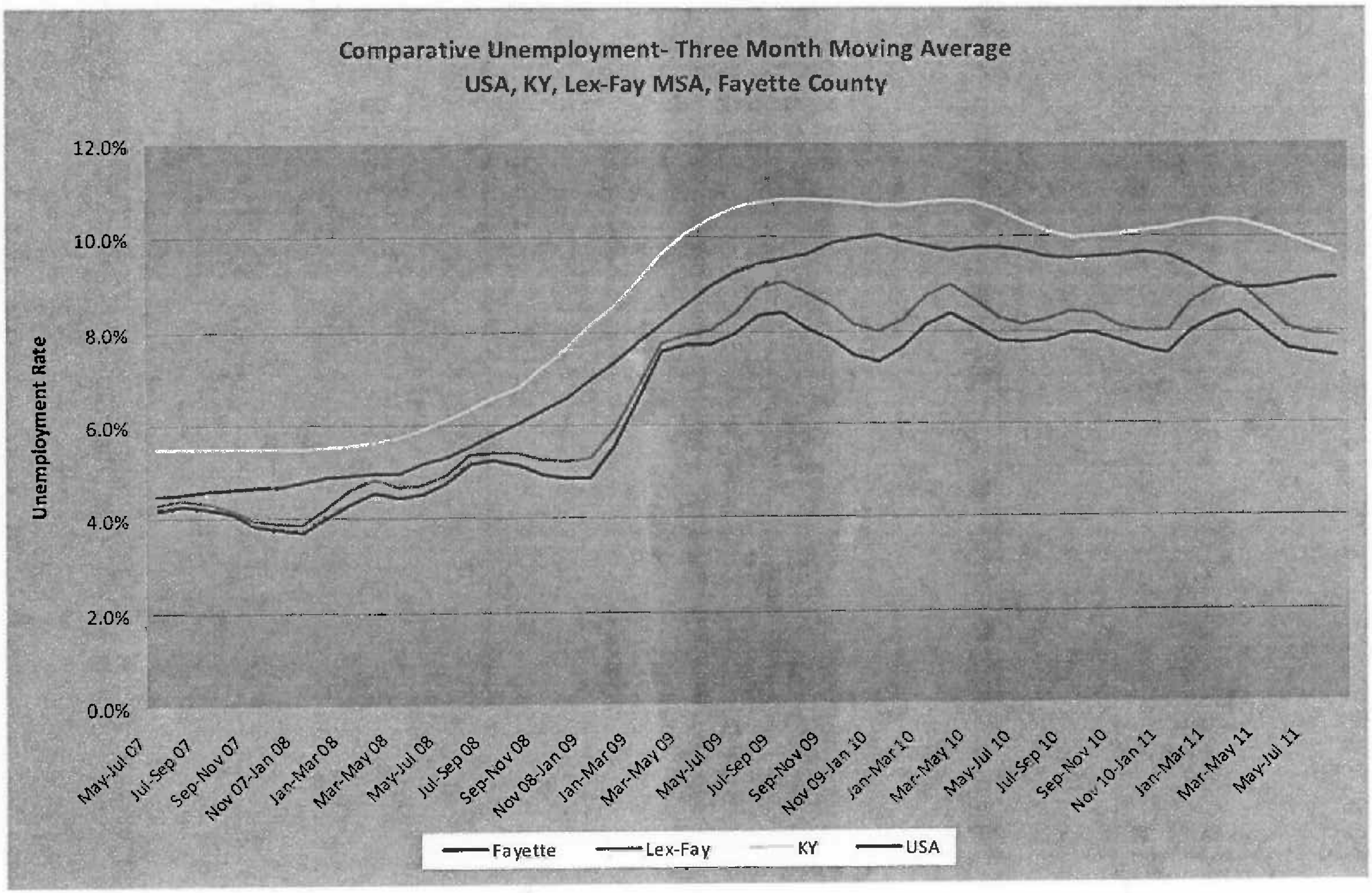
Budget & Finance Committee

Financial Update
August 30, 2011

Comparative Unemployment Rates



Comparative Unemployment Rates
Three Month Moving Average



Economic Indicators

Economic Indicators

	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July
Fayette County Unemployment Rate	7.2%	7.8%	7.5%	8.7%	8.6%	7.9%	7.6%	7.3%	7.6%	N/A
Fayette County Employment	141,617	140,903	141,969	142,352	143,016	145,032	145,410	145,985	147,052	N/A
Fayette County Permits Issued	923	1,015	707	793	786	1,019	1,169	1,187	1,405	1,195
Fayette County New Business Licenses	239	204	168	205	245	446	873	223	199	223
Home Sales (MSA)	442	438	521	328	352	520	586	657	720	614
Fayette County Foreclosures	44	44	39	59	59	40	33	33	39	39

N/A - Indicates data not available.

July Actual/Adopted Budget

Revenue Category	Actual	Budget	Variance	%
	July 2011 Monthly Actual Compared to Adopted Budget			
OLT- Employee Withholding	7,882,405	8,160,303	(277,898)	-3.4%
OLT - Net Profit	765,606	649,248	116,358	17.9%
Insurance	3,304,206	3,035,872	268,334	8.8%
Franchise Fees	405,885	400,227	5,658	1.4%
TOTALS	12,358,102	12,245,650	112,452	0.9%

July YTD Actual/Adopted YTD Budget

	July YTD Actual Compared to Adopted YTD Budget			
Revenue Category	**Actual**	**Budget**	**Variance**	**%**
OLT- Employee Withholding	7,882,405	8,160,303	(277,898)	-3.4%
OLT - Net Profit	765,606	649,248	116,358	17.9%
Insurance	3,304,206	3,035,872	268,334	8.8%
Franchise Fees	405,885	400,227	5,658	1.4%
TOTALS	12,358,102	12,245,650	112,452	0.9%

July YTD Actual Less Amnesty/Adopted YTD Budget

Actual YTD Less Amnesty YTD Compared to Adopted Budget

Revenue Category	Jul '11 YTD	Amnesty	Jul '11 Actual	July Budget	Variance	%
OLT- Employee Withholding *	7,882,405	(8,683)	7,873,722	8,160,303	(286,581)	-3.51%
OLT - Net Profit	765,606	(13,843)	751,763	649,248	102,515	15.79%
Insurance	3,304,206		3,304,206	3,035,872	268,334	8.84%
Franchise Fees	405,885		405,885	400,227	5,658	1.41%
TOTALS	12,358,102	(22,525)	12,335,577	12,245,650	89,926	0.73%

July YTD Actual Less Amnesty/Prior Year Actual Less Amnesty

Actual YTD Less Amnesty Compared to Actual Prior YTD Less Amnesty

Revenue Category	Jul '11 YTD	Amnesty	Jul '11 Actual	Jul '10 YTD	Amnesty	Jul '10 Actual	Variance	%
OLT- Employee Withholding *	7,882,405	(8,683)	7,873,722	8,816,155	(226,445)	8,589,710	(715,988)	-8.12%
OLT - Net Profit	765,606	(13,843)	751,763	895,748	(483,485)	412,263	339,500	37.90%
Insurance	3,304,206		3,304,206	3,557,179		3,557,179	(252,973)	-7.11%
Franchise Fees	405,885		405,885	392,783		392,783	13,102	3.34%
TOTALS	12,358,102	(22,525)	12,335,577	13,661,865	(709,930)	12,951,935	(616,358)	-4.51%

Preliminary CAFR Schedule

MID-AUGUST	
	AUDIT ENGAGEMENT COMPLETE
SEPTEMBER	
	EXTERNAL AUDITORS BEGIN ON-SITE
	SUBSTANTIVE TESTING & VARIANCE ANALYSIS
	(on-going through NOV)
	FOOTNOTE & STATISTICAL DATA GATHERING
OCTOBER	
	OUTSIDE AGENCY REPORTS DUE

Preliminary CAFR Schedule (cont.)

NOVEMBER	
	CAFR FINAL & TECHNICAL REVIEW
	FOOTNOTES-OPEB & PENSION
	CONTINGENT LIABILITIES & SUBSEQUENT EVENTS
	MANAGEMENT DISCUSSION & ANALYSIS
DECEMBER	
	FINALIZE STATISTICAL SECTION
	CAFR COVER REVIEW & APPROVAL
	GFOA CERTIFICATION CHECKLIST
	FINALIZE CAFR
	OPINION LETTER FROM AUDITOR

- Questions ?

February 27, 2011

To the Budget and Finance Committee
Lexington-Fayette Urban County Government
Lexington, Kentucky

In planning and performing our audit of the financial statements of governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Lexington-Fayette Urban County Government (LFUCG) as of and for the year ended June 30, 2010 , in accordance with auditing standards generally accepted in the United States of America, we considered LFUCG's internal control over financial reporting (internal control) 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 the LFUCG's internal control. Accordingly, we do not express an opinion on the effectiveness of the LFUCG's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We consider the following deficiencies to be material weaknesses in internal control:

Criteria:
As discussed in Standards for Internal Control in the Federal Government published by the General Accounting Office, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:
A material prior period adjustment was required to correct an error in compensated absences.

Cause
The Government's controls over reporting compensated absences were deemed to be not properly designed. The Government did not have sufficient procedures in place to properly check the mathematical accuracy of computer generated reports which provided the supporting detail for the account.

Effect:
An adjustment relating to the year ended June 30, 2009 was identified by management during fiscal 2010 audit period. The Government did not have sufficient procedures in place to detect and prevent a material error in a timely manner.

Response:
The error was caused by a report from our Legacy System. This system is no longer used for reporting compensated absences. The report currently being used is from our ERP system and has been validated.

Criteria:
As discussed in Standards for Internal Control in the Federal Government published by the General Accounting Office, internal control is an integral component of an organization's management that provides reasonable assurance that an objective of reliable financial reporting is being achieved. Organizations should implement procedures to ensure this objective is achieved.

Condition:
A material prior period adjustment was required to correct an error in the unfunded other post retirement benefit liability.

Cause
The Government's controls over reporting the unfunded other post retirement benefit liability were not properly operating. The Government's former Director of Accounting misinterpreted the recently issued standards for financial reporting for other post retirement benefits which inadvertently resulted in the accounting error.

Effect:
An adjustment relating to the year ended June 30, 2009 was identified by management during fiscal 2010 audit cycle. The Government's controls were not operating properly to detect and prevent a material error in a timely manner.

Response:
Per GASB 45, an Actuarial study is required every two years. A procedure is in place to make sure the estimate is calculated for alternating years.

We noted certain other opportunities to strengthen internal controls and operating efficiency. Our comments and suggestions regarding these matters are summarized below.

PRIOR YEAR COMMENTS

Issue
LFUCG has not prepared formally documented written accounting policies and procedures.

Recommendation
LFUCG should consider developing an accounting manual which defines policy and procedures for all key accounting processes and includes the roles and functions of all applicable divisions such as Revenue, Budgeting, Purchasing, Computer Services, Payroll and Human Resources, as well as Accounting and Finance. Providing such a resource would serve to help standardize and streamline LFUCG's accounting processes and provide all employees the necessary guidance to perform their duties in compliance with LFUCG policy. In addition, an accounting manual would prove to be an invaluable tool in the event of unexpected turnover or absenteeism of key personnel. In addition to accounting-related policy and procedure, including an outline of key internal control features, would prove beneficial in providing employees a better overall comprehension of each key accounting function and assist management in the future review and evaluation of controls to ensure they are updated in response to systemic changes.

Management's Response
Job aides related to our ERP system have been created for key transactions used by the Accounting Division. Several job functions within the Division have been documented. We are in the process of developing a policy and procedures manual.

Issue
Currently, the LFUCG has not implemented the financial reporting module of PeopleSoft. As LFUCG financial statements prepared in accordance with generally accepted accounting principles are only prepared once a year as part of the Comprehensive Annual Financial Report via procedures that are manual in basis, the current process does not readily permit the preparation of certain necessary and beneficial financial analyses of operations and financial condition throughout the year.

In addition, the LFUCG only performs a detailed analysis of its financial position on an annual basis in conjunction with the preparation of the consolidated annual financial report. Due to this, management, the Council and the Mayor can only access the full financial health of the Government on an annual basis.

Recommendation
It is recommended that LFUCG implement the reporting module of PeopleSoft and train applicable personnel as necessary to facilitate and simplify the process by which useful and necessary analyses of financial data may be performed, to improve accounting and reporting efficiencies, and gain full benefit of the software's capabilities.

We also recommend the LFUCG consider the cost-benefits of performing an analysis of the Government's financial position on an interim basis, quarterly or semi-annually. We recommend that proper interim account analysis be performed on a current and timely basis. Significant benefits will be realized through additional and current analysis of the financial statements.

Management's Response
Preliminary reports have been created for major funds (Governmental & Proprietary Funds) which roll up to the Government Wide financial statements. The Accounting Division plans to test and further develop these reports, and in addition create more reports. The final goal is to automate the process of compiling the annual CAFR.

Issue
The Division of Community Development's written policy on grant administration has not been updated since 1999.

Recommendation
We recommend the Division of Community Development update the written policy of grant administration and include the appropriate changes for the conversion to PeopleSoft.

Management's Response
Please refer to the Management's response on developing written policies and procedures for the Division of Accounting. We can update the written policies and procedures for grant administration within our purview and recommend the Division of Community Development do the same.

Issue
Based on our inquiry with staff from the Division of Community Development (DCD) and review of multiple grant reports, it was noted that the DCD is maintaining a separate manual accounting system in addition to using PeopleSoft for certain grant projects in which the budget period covers multiple fiscal years. This process represents a duplication of effort and requires much of the staff's time to reconcile to the PeopleSoft records on a continuous basis which is not an efficient use of time.

Recommendation
We recommend the LFUCG review the current process that the Division of Community Development uses for tracking the grants transactions and determine if the PeopleSoft system is being utilized effectively and efficiently.

Management's Response
The IT department is currently reviewing the PeopleSoft module used for administering grants. This examination is intended to review the module's functionality and assess options to improve efficiencies for grant accounting.

Issue

Currently, LFUCG has formal whistleblower policies and procedures established to report ethical and other policy violations, and to investigate such potential violations, and to impose sanctions for violations. However, the current policy does not provide for the filing of anonymous complaints. Employees, vendors or the general public could have significant, beneficial information but they may be uncomfortable in reporting directly to the Council or management.

Recommendation
We recommend LFUCG establish a policy and process that allow for concerns to be brought to their attention, including anonymous concerns. The process should include multiple avenues by which concerns may be expressed, such as a toll-free hotline, an e-mail address, and a postal address. In addition, the policy should include reporting procedures and management's responsibility to address issues reported.

Management Response
LFUCG currently has a whistleblower policy contained in the Code of Ordinances, Section 25-29, which is virtually identical to the Kentucky Whistleblower Act, KRS Chapter 61.102. Under the policy, complaints are to be made to the LFUCG Ethics Commission, any law enforcement agency or its employees, or any other appropriate body or authority. The authority of the Ethics Commission is limited to violation of Chapter 25 of the Code of Ordinances. The policy does not provide for the filing of anonymous complaints, toll-free hotline, etc.

The Office of Internal Audit gave a presentation before the Council's General Government Committee on March 22, 2011, which provided substantial information regarding the establishment of a fraud tip line;

including tip line alternatives, best practices, and potential costs.

Issue
LFUCG maintains a database for depreciation related to its fixed assets in PeopleSoft. LFUCG has over 90,000 fixed assets currently in the depreciation database. However, the software currently does not have the capability to generate a full depreciation schedule by asset that can be reviewed and agreed to the general in total.

Recommendation
We recommend LFUCG consult with PeopleSoft IT consultants to explore the cost-benefit analysis of generating a full fixed asset depreciation report by asset.

Management Response
The Director of Accounting will work with the Senior Accountant in charge of fixed assets to review PeopleSoft reporting tools. The goal will be to develop a report or query which can be used to generate a full depreciation schedule summarized by asset. This may require additional assistance from the Department of Enterprise Services.

Issue
As part of the financial statement audit of Lexington Fayette Urban County Government, we conducted a review of the IT internal control structure. During this review we examined the Information Technology General Controls (ITGC) surrounding the information systems including software and hardware. We noted several opportunities to reduce information system risks.

IT Operations Controls

Managing operations addresses how an organization maintains reliable application systems in support of the business to initiate, record, process, and report financial information. Deficiencies in this area could have a significant impact on an entity's financial reporting function. For instance, lapses in the continuity of scheduled jobs may prevent an organization from recording financial transactions accurately and timely.

Control Activity: Regularly scheduled formal test restoration has not been performed. However, refreshing of the test, QA and development environment is performed on a regular basis. Refreshing of the environment is performed using a script. Confirmation is sent back to the requestor via email; however, no documentation is kept of the process.

Observation: Restoration testing is not being performed and documented on a regularly scheduled basis.

Recommendation: Document and perform a quarterly restore test on all financial relevant systems to ensure the quality of the backup media.

Management's Response
IT has tentatively scheduled March 2011 as the month to begin recovery testing. The process will begin with a Phase I validation of the tape media and the ability to restore the AIX operating system. Phase II will include recovery of the PeopleSoft application, the Oracle Database and production data. There is currently money in the IT budget for this project.

Control Activity: Contingency plans have been developed for alternative processing in the event of loss or interruption of the IT function.

Observation: Business contingency plan has not been documented.

Recommendation: Establish, document and store off site a business contingency plan to ensure a reasonable system recovery time in the event of a disaster.

Management's Response
The Business Impact Analysis (BIA) was completed and finalized during FY07. The contingency plan remains a work in progress and is being managed by the IT team.

Change Control

Managing changes addresses how an organization modifies system functionality to help the business meet its financial reporting objectives. Deficiencies in this area could significantly impact financial reporting. Unauthorized changes could lead to unwanted, inconsistent or unknown results.

Control Activity: Changes are migrated to production by system administrators after being approved. For RPG2 programming, STAT software is used to migrate deliverables into production. Developers have their own copy of the source code.

Observation: Developers have 24x7 access to the production environment.

Recommendation: Establish a process to limit developers' access to the production environment to prevent unauthorized changes.

Management's Response
The Division of Enterprise Solutions (PeopleSoft) has set forth a policy that sets developer access to read-only for the production financial environment. Any and all changes are to be migrated to production via the PeopleSoft App Designer program and checked in on the programming migration log. These changes are reviewed by the Technical Mgr for quality assurance (QA) before migrating.

Organization Structural Controls

Policies and procedures include the change control methodology, security policy, operations policy as well as required documentation. Policies and procedures support an organization's commitment to perform business process activities in a consistent and objective manner. Segregation of duties with the IT department can reduce risk of fraud.

Control Activity: The organization's IT policies and procedures are regularly reviewed, updated and approved by management.

Observation: LFUCG has documented a Computer Policy; however they do not show sufficient evidence of management's regular review, update and approval.

Recommendation: IT policies and procedures should be documented, reviewed, updated and approved by management on a regular basis.

Management's Response
Both IT and Enterprise Solutions (PeopleSoft) will meet on a monthly basis to review, update and/or change (if needed) and approve these policies with immediate effect.

CURRENT YEAR COMMENTS

Issue

Two separate issues related to revenue recognition were noted during the financial statement audit which were subsequently corrected by management. Our testing of the accrual of license fee revenue revealed that LFUCG was not consistent in applying its adopted policy for recording receivables in the General Fund for taxpayer-assessed revenues. The policy states that taxpayer-assessed revenues that are collected 30 days after year end will be recorded as receivable at year end and franchise fees are recognized if collected within 60 days of year end. The required adjustment was likely the result of misapplying the policy which was not clearly documented.

Our testing of accounts receivable for the Landfill fund revealed LFUCG had recognized revenue in fiscal year 2010 that was actually related to subsequent periods. Proprietary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, revenues are recorded when earned, regardless of the timing of related cash flows. The required adjustment was likely the result of misapplying the policy which was not clearly documented.

Recommendation

We believe the revenue recognition errors that were noted continue to reinforce our previous recommendation to prepare a written accounting manual which would contain all of LFUCG's accounting policies. If such a manual existed at the time management was closing fiscal year 2010, these subsequent adjustments might have been prevented or detected earlier.

Management's Response

An effort is currently under way to complete a written policies and procedures manual for the Division of Accounting. Please refer to Management's Response on page 3 for further details. Every effort is made to ensure accurate financial reporting.

Issue

A cash disbursement testing was performed during the audit process on claims paid from the medical self-insurance fund. Seven (7) instances, out of 27 transactions tested, were noted in which the approval of the claim by the Human Resource Department personnel was not clearly documented. Based on our understanding of the approval process, a Human Resource Manager is required to review and approve all claims before submitting to the Division of Accounting for payment processing. In most instances we noted the written approval was documented via e-mail. For the exceptions noted, no documentation to support the approval by the HR Manager was provided; however based on our inquiry with management, these transactions were reviewed and approved. These exceptions were likely the result of turnover in the HR Department and misapplying the policy which was not clearly documented.

Recommendation

We suggest that the approval for disbursements should always be clearly written so that it is clear the disbursements were properly authorized for payment. In addition, we recommend that policies related to the review and approval of claims paid from the medical insurance fund be formalized, written and included in the LFUCG's accounting manual.

Management's Response

An effort is currently under way to complete a written policies and procedures manual for the Division of Accounting. Please refer to Management's Response on page 3 for further details. Every effort is made to ensure accurate financial reporting.

Issue
The Facilities Management inventory located on Old Frankfort Pike was not properly included in the general ledger as inventory at June 30, 2010 which was subsequently corrected by management. We identified the omission based on our review of an Internal Audit Report on the Facilities Management Inventory Process prepared by LFUCG's Internal Audit Department dated April 23, 2010. That report originally identified the omission as well as other issues related the Facilities Management Inventory process. The required adjustment was likely caused by lack of proper follow-up communication between the Division of Accounting and the Office of Internal Audit.

Recommendation
We recommend LFUCG consider methods to improve the communication between the Office of Internal Audit and the Division of Accounting. Improved communication between these departments could result in stronger internal controls, improved accuracy of financial reporting and increased effectiveness of the internal audit function. Based on our review of the Internal Audit Reports prepared and published by the Office of Internal Audit since its inception, we noted that many of the audits and subsequent recommendations from those audits relate directly with internal controls over financial reporting. The Division of Accounting is responsible for preparation of LFUCG financial statements and well as the design and implementation of sound internal controls over financial reporting. LFUCG might consider requiring divisions to follow-up in writing regarding the implementation of internal audit report recommendations to the Office of Internal Audit on a quarterly basis.

Management's Response
The Office of Internal Audit has a follow-up process in place to obtain additional assurance that management action plans are implemented to correct audit findings. Follow-up with management typically occurs several months after an audit report is issued in order to provide management sufficient time to fully implement the action plans. In this particular instance, the internal audit report containing management's representation that a physical inventory would be conducted and the results reported to Accounting for posting to the general ledger was issued approximately two months prior to the fiscal year end so no follow-up had occurred.

The Office of Internal Audit strives to have open communication with the Division of Accounting. A process has begun whereby the Director of Accounting will receive all Internal Audit Reports regardless of content. This will enhance the communication lines between the Office of Internal Audit and the Division of Accounting.

Issue
The Comprehensive Annual Financial Report (CAFR) is prepared by the Division of Accounting and Finance. Based on our experience as auditors for LFUCG, the level of internal review of the CAFR before release of the report to its external auditors is typically limited to individuals within the Division of Accounting and Finance. This is not considered unusual nor is it necessarily considered an internal control weakness. However, the size, complexity and decentralization of LFUCG's operations, which combined include 7 major departments, approximately 30 divisions, over $1.7 billion in total assets and over $400 million in annual revenues, makes it difficult for any one individual to obtain a compressive "big picture" understanding of the Government's financial status and operations. In addition, there is specific knowledge and information about certain aspects of Government that could have an impact to financial reporting that is limited to certain individuals within certain divisions. This information if not properly communicated to the Division of Accounting could result in omissions from the financial statements.

Recommendation
We recommend LFUCG consider expanding the internal review of the CAFR prior to release to the external auditors to individuals within certain LFUCG divisions such as Revenue, Environmental Quality, Law, Budgeting, Community Development as well as the Budget and Finance Committee. This will provide for an additional layer of review and monitoring and will strengthen internal controls over financial reporting.

Management's Response
Annual results from the Division's mentioned above are conducted at the subsidiary ledger level. This is consistent with other governmental entities. Quarterly reports are issued for Environmental Quality. Review of the amounts reported is ongoing. The Division of Accounting will begin performing variance analysis during the year-end compilation of the CAFR in order to communicate with Division's and analyze annual changes. These two procedures will aide in identifying any amounts that have been reported incorrectly in a timely manner.

Issue
As part of the financial statement audit of Lexington Fayette Urban County Government, we conducted a review of the IT internal control structure. During this review we examined the Information Technology General Controls (ITGC) surrounding the information systems including software and hardware. We noted several opportunities to reduce information system risks.

System Security Controls

Managing systems security includes both physical and logical controls that prevent unauthorized access. These controls typically support authorization, authentication and security monitoring. Deficiencies in this area could significantly impact financial reporting. For instance, insufficient controls over user access to transaction processes and authorization may result in inaccurate financial reporting.

Control Activity: User access reviews are performed for PeopleSoft; however not on a regular basis by the Division Enterprise Solutions. They are performed within sql reconciled to the HCM (Human Resource Module). User access review for the domain is not being performed.

Observation: User access reviews for PeopleSoft are being performed by the Division of Enterprise Solutions, (IT Department), the department setting up the access and not by the system owners.

Recommendation: User access reviews should be performed by the system owners, an independent party, on a quarterly basis to ensure the appropriate access and to provide segregation of duties.

Management's Response
The PeopleSoft team will now require a quarterly review of all Financials access to occur. This effort will be led by the PeopleSoft Financial Business Units and the PeopleSoft Financials Mgr, SME (Candace Wafford) who resides within the Division of Enterprise Solutions.

Control Activity: User access reviews are performed for PeopleSoft; however not on a regular basis by the Division Enterprise Solutions. They are performed within sql reconciled to the HCM (Human Resource Module). User access review for the domain is not being performed

Observation: User access reviews are not being performed for the domain.

Recommendation: Perform user access reviews for the domain on a semi annual basis to ensure all users are active employees.

Management's Response
While the frequency of review has been ad-hoc thus far, the reviews with the business units and the IT Security staff will happen on a scheduled basis. IT has recently hired a staffer who has deep knowledge of the Microsoft AD construct and this employee will help frame the user access rights to the domain. The IT security team will work in conjunction with the PeopleSoft team to ensure that access rights are locked down as tight as possible.

Organization Structural Controls

Policies and procedures include the change control methodology, security policy, operations policy as well as required documentation. Policies and procedures support an organization's commitment to perform business process activities in a consistent and objective manner. Segregation of duties with the IT department can reduce risk of fraud.

Control Activity
Joe Bell serves as a programmer and system administrator for PeopleSoft.

Observation
Segregation of duties does not exist between programmers and system administrators.

Recommendation
Establish a monitoring process to monitor system administrator activities of Joe Bell.

Management's Response
Joe Bell's duties have been refined since our meeting with audit team this summer. As of this review he no longer performs any programming changes on the system and is specifically positioned as a systems administrator. His access (as well as that of all other PeopleSoft IT staff) is monitored via system logs on the AIX operating system. In short, all logon attempts, user elevation requests, etc. are logged and reviewed by the IT security and administration staff. Additionally, if any "questionable" actions of staff members arise, the logs are emailed to the PeopleSoft Director and the IT Director for review and consultation.

This communication is intended solely for the information and use of management, the Budget and Finance Committee of LFUCG and the Mayor and Urban County Council and is not intended to be and should not be used by anyone other than these specified parties. We appreciate the opportunity to serve LFUCG and are available at your convenience to answer questions or assist in the implementation of these suggestions.

Respectfully,

Mountjoy Chilton Medley LLP

Lexington, Kentucky

Budget & Finance Committee Referrals

Item	Referred By	Date Referred	Status
BOAR Fee Structure	General Government Link	8-11-11	
Catering Definition in Zoning Ordinance	Crosbie	5-24-11	
Comprehensive Review of Economic Contingency Ordinance	Farmer	4-14-11	
Solid Waste Costs/Revenue/Tax Structure Cost Per Ton; Cost Per Customer Impact of User Fee Structure	Gorton	2-1-11	Solid Waste Task Force
Local Vendor Preference*	Gorton	10-14-10	Procurement Task Force
Minority/Women Business Recruitment*	Stinnett	10-7-10	Procurement Task Force
Purchasing, Procurement & Professional* Service Selection Process	Crosbie	9-24-10	Procurement Task Force

* Purchasing related items were also referred to Purchasing & Procurement Task Force

PAS 8-24-11