Budget and Finance Committee
Dr. Stevens
Jim Gray
Linda Gorton
Chuck Ellinger
Jay McCord
Ed Lane
Kevin Stinnett
George Myers
Andrea James
Don Blevins

AGENDA

BUDGET AND FINANCE COMMITTEE

March 25, 2008

1:00 P. M.

1. **General Fund Revenue Update February, 2008 – Koch**
   - **February, 2008 Revenue Report, "Draft" - (pg 1)**
   - **Payroll, Net Profit and Insurance Revenue Graphs (pg 2-4)**

2. **Presentation on 2008 Consolidated Plan – King**
   - **HUD Consolidated Plan Summary of Recommended Projects (pg 5)**

3. **Update on Internal Audits – Sahli**
   - **The Internal Audit Process - (pg 6)**
   - **Summary of Audit Results – (pg 7-9)**

DRAFT

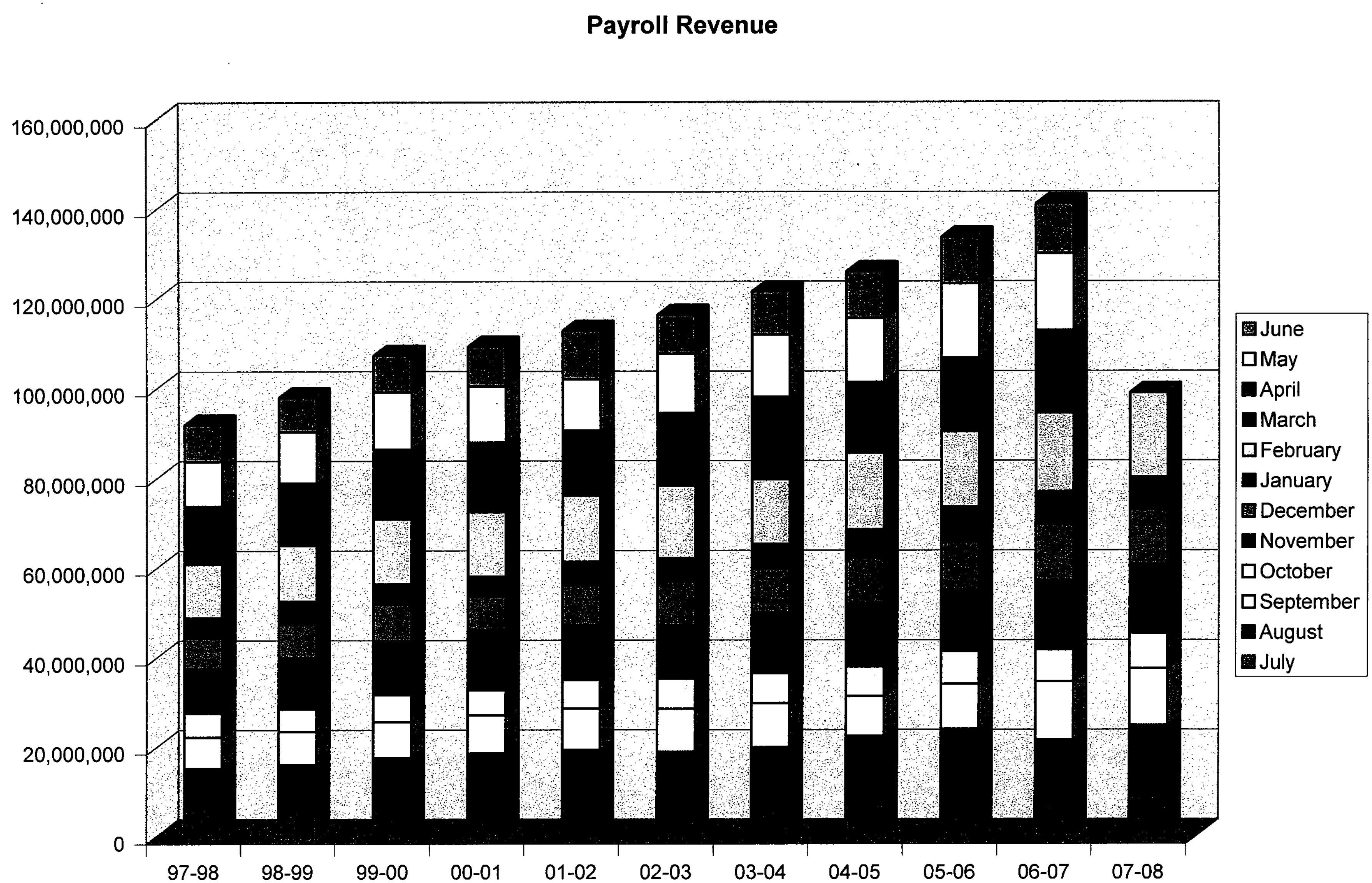
General Services District Fund
Revenue
February 2008

Revenues	2007-08 Amended Budget	Last Year February	This Year February	Last Year YTD	This Year YTD	YTD Last Year vs YTD This Year	This Year Budgeted vs Last Year Actual
Licences and Permits	224,319,970	23,762,932	26,575,365	133,526,290	140,314,906	5.1%	4.5%
Property Tax Accounts	18,795,000	926,246	1,133,197	16,410,448	17,549,965	6.9%	3.5%
Charges for Services	18,799,370	854,957	1,351,041	12,883,063	12,031,069	N/A	N/A
Fines and Forteitures	82,000	4,078	(57,135)	37,369	58,920	N/A	N/A
Intergovernmental Revenue	887,429	121,056	42,171	1,270,336	647,986	N/A	N/A
Health Insurance Premiums	0	0	0	(882)	50	N/A	N/A
Property Sales	420,000	46,684	28,099	206,397	290,912	N/A	N/A
Investment Income	2,023,000	253,429	0	1,131,098	203,991	N/A	N/A
Other Financing Sources	736,230	0	(26)	954	2,310	N/A	N/A
Pension Fund Revenue	0	0	0	0	219	N/A	N/A
Other Income	1,729,860	208,888	229,906	3,603,732	1,756,441	N/A	N/A
Total Revenue	**267,792,859**	**26,178,271**	**29,302,617**	**169,068,806**	**172,856,767**	**2.2%**	**0.6%**
Big 3:							
Withholding OLF	149,705,920	17,541,400	18,874,045	94,401,827	98,983,148	4.9%	6.1%
Net Profit OLF	32,077,080	526,686	611,455	12,223,289	12,229,921	0.1%	5.4%
Insurance	22,500,000	2,542,975	3,420,572	15,110,814	15,157,356	0.3%	8.3%

File Output Name: USER_56B.xls
Directory Path: f:\finprd\NVISION\INSTANCE

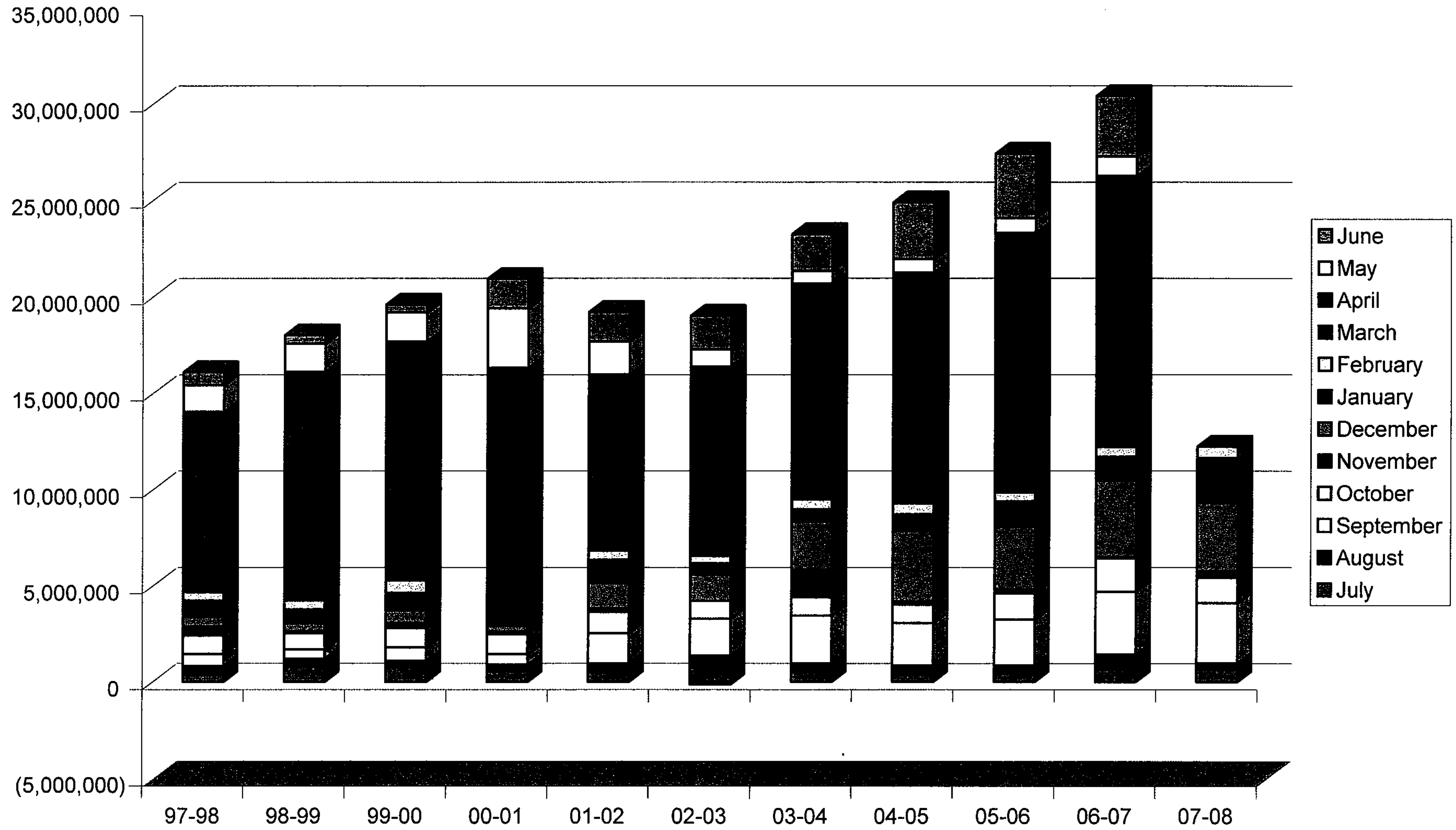
Dept. of Finance and
Administration

03/19/2008



Division of Revenue
3/19/2008

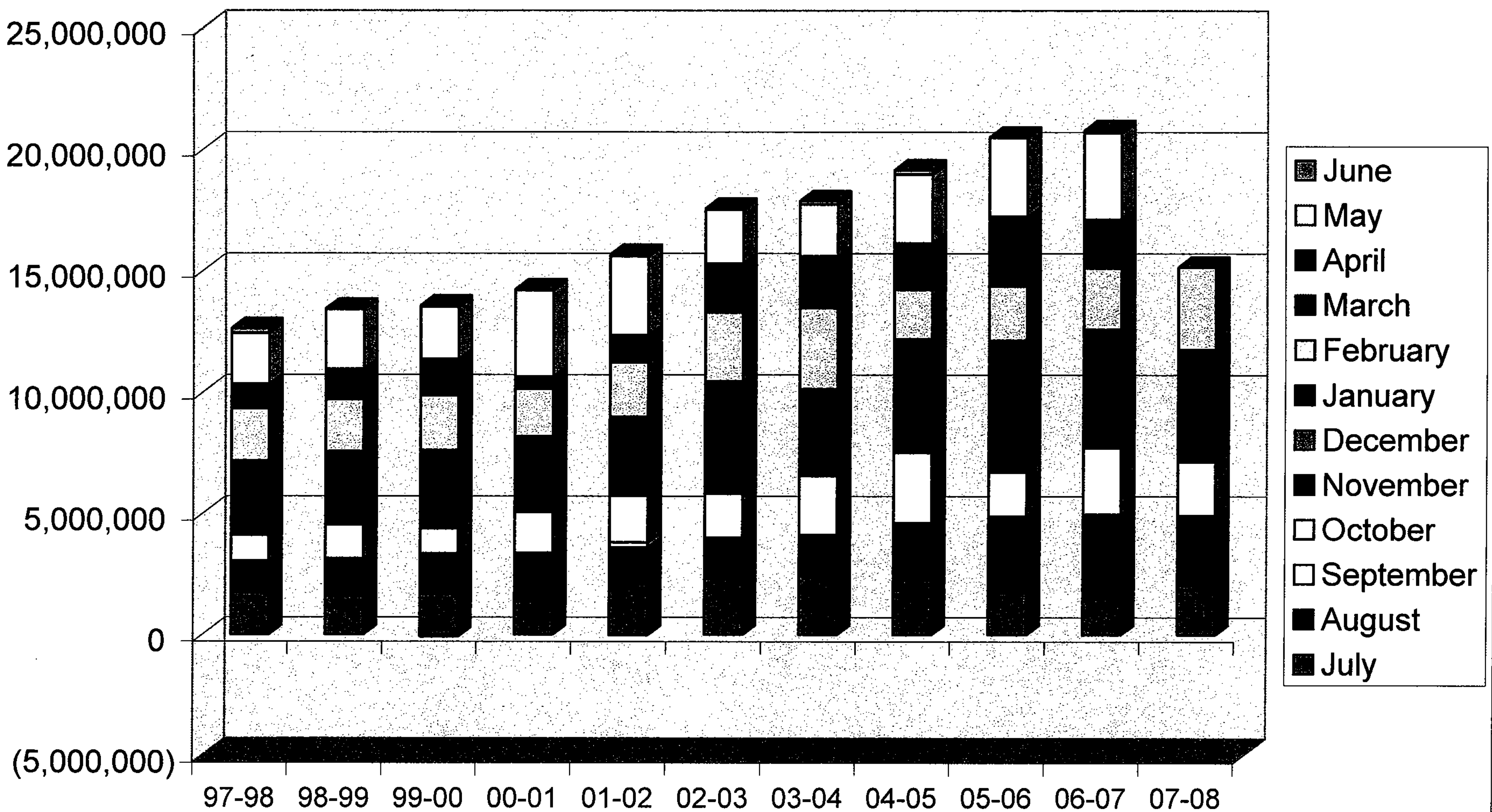
Net Profit Revenue



6

Division of Revenue
3/19/2008

Insurance Premium



HUD CONSOLIDATED PLAN FY2008
Recommended Projects

	FEDERAL	PROGRAM INCOME	REQUIRED MATCH	TOTAL REVENUE
CDBG	**$ 2,045,837.00**	**$ 250,000.00**	**$ -**	**$ 2,295,837.00**

CONTINUATION PROJECTS

Administration and Planning: (limit of 20% of award)		
	Administration: Division of Community Development Staff	*$ 160,000.00*
Infrastructure:	Meadows/Northland/Arlington: Highland Park and Meadow Park	*$ 820,000.00*
Housing:	Housing Rehabilitation Operations/Staff	*$ 300,000.00*
	Housing Rehabilitation, owner-occupied, $1 million total	*$ 500,000.00*
	Realtor Community Housing Foundation-Ramp Program, Repair Affair and emergency repairs	*$ 40,000.00*
	Community Action Council - weatherization program	*$ 20,000.00*
Supportive Services: (limit of 15% of award)		
	Hope Center-transitional housing, year 10	*$ 53,000.00*
	Hope Center for Women-transitional housing, year 7	*$ 44,000.00*
	Repairers of the Breach, Inc. - expansion of youth, adult, employments services - year 2	*$ 28,200.00*
	Volunteers of America-housing for homeless, year 10	*$ 53,000.00*
	MASH Services of the Bluegrass- youth services - year 2	*$ 31,000.00*
	Bluegrass Domestic Violence Program - housing services to victims of domestic violence - year 3	*$ 32,000.00*
	Bluegrass Regional Mental Health/Mental Retardation Board- temporary shelter for homeless with severe mental illiness, year 5	*$ 38,870.00*
	Total Services: $ 310,510.00	

NEW PROJECTS

Public Facilities:	Florence Crittenton Home- exterior renovation and repairs	*$ 143,327.00*
Rehabilitation:	Shepherd's House- rebuild accessible ramp	*$ 2,000.00*
Supportive Services (limit of 15% of award)		
	Ruby E Bailey Family Services Center - Operation Regeneration summer camp at North Limestone Center	*$ 10,000.00*
	Manchester Center Youth Development Program- expansion of current services to provide after school and summer programming	*$ 20,440.00*

	FEDERAL	PROGRAM INCOME	REQUIRED MATCH	TOTAL REVENUE
HOME	**$ 1,371,127.00**	**$ 300,000.00**	**$ 295,323.00**	**$ 1,966,450.00**

Homebuyer Programs:		
	Fayette County Local Development Corporation (CHDO required 15% minimum of federal award)	*$ 210,000.00*
	Community Ventures Corporation	*$ 200,000.00*
	REACH, Inc.	*$ 400,000.00*
Housing Rehabilitation:	Division of Community Development	*$ 500,000.00*
Administration:	Division of Community Development	*$ 135,690.00*
	Fayette County Local Development Corporation	*$ 40,000.00*
Rental Housing:	Lexington Homeownership Commission- Falcon Crest (72 units)	*$ 300,000.00*
Rental Housing:	*Projects in Process-HOME Letters of Support:*	
	Faith Community Housing Foundation, Inc. (36 units)	
	First Presbyterian Church (10 units)	
	Brenda D Cowan Coalition (56 units)	

AMERICAN DREAM DOWNPAYMENT INITIATIVE

FEDERAL	PROGRAM INCOME	REQUIRED MATCH	TOTAL REVENUE
$ 14,145.00	**$ -**	**$ -**	**$ 14,145.00**

This program is administered under the HOME Program and is included in the HOME federal amount above.

	FEDERAL	PROGRAM INCOME	REQUIRED MATCH	TOTAL REVENUE
ESG	**$ 91,408.00**	**$ -**	**$ 91,408.00**	**$ 182,816.00**

Homeless Prevention Services:	Division of Adult Services	$ 24,000.00
Shelter Operations:	Hope Center for Men	$ 24,720.00
	Hope Center for Women	$ 20,000.00
	Salvation Army	$ 12,688.00
	Bluegrass Domestic Violence Program, Inc.	$ 10,000.00

These agencies provide their own match.

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 ACCOUNTING JOURNAL ENTRY REVIEW
SUMMARY OF AUDIT RESULTS

The Office of Internal Audit completed a review of selected Division of Accounting Journal Entries on February 29, 2008. Due to the fact the Division of Accounting was in the process of reviewing large groups of material automated and manual Journal Entries affecting non-cash accounts, a decision was jointly made with the Director of Accounting that the scope of this review would be the examination of all manually produced Journal Entries in amounts of $100,000 or greater affecting Cash in Banks (Account 10130). Journal Entries are first grouped into Journal Vouchers (similar to files grouped in a file folder) before being posted in the STARS System. We therefore examined 79 Journal Vouchers affecting the Cash in Banks account.

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

- Journal Entries were properly supported and posted to the correct accounts
- Journal Entries were properly approved prior to posting
- Journal Entries were posted in a timely manner

The following findings were reported to senior management:

- The Division of Accounting should develop written procedures clearly establishing requirements for supporting, recording, and processing Journal Vouchers and their related Journal Entries
- Descriptions or other supporting documentation was generally inadequate to provide reasonable assurance that the non-cash side of Cash in Bank Journal Entries were posted to the correct account
- Journal Entry source documentation standards need to be established
- Journal Entries should be consistently posted in a timely manner to ensure compliance with Generally Accepted Accounting Principles
- Journal Vouchers contained too many unrelated Journal Entries, creating confusion in the record of financial transactions and making their review cumbersome and difficult
- Journal Entries posted to the various Journal Vouchers often contained generic or non-descript explanations that made the proper review of such transactions cumbersome and difficult
- The STARS Workflow Process (which would provide systematic tracking of Journal Voucher approvals) should be activated, and an approval process established in order to track Journal Voucher approvals in STARS
- The User ID Field of the STARS System Journal Header screen should be programmed to track originating (and if possible, editing) Journal Voucher entries to improve review and oversight capabilities
- The Divisions of Accounting and Computer Services should examine options to create standard naming conventions and sequential numbering to prevent possible duplication of Journal Voucher IDs and improve transaction tracking

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.

PARKS & RECREATION PAYROLL PROCESS AUDIT
SUMMARY OF AUDIT RESULTS

The Office of Internal Audit completed an audit of the Parks & Recreation Payroll Process on February 19, 2008.

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

- Non-permanent Division of Parks & Recreation employees were properly coded into the LFUCG payroll system as Seasonal or Part-Time, according to Kentucky Revised Statues as it applies to the County Employees Retirement Fund (CERS)
- Management has established internal controls to ensure payroll payments are only made to actual employees within the Division of Parks & Recreation
- There was no evidence of duplicate payroll payments within the Division of Parks & Recreation for January 1, 2006 through September 2, 2007
- Division of Parks & Recreation Part-Time and Seasonal employees are paid using a pay scale acceptable to the LFUCG

The following findings were reported to senior management:

- Improvements are needed in Parks & Recreation's initial Seasonal and Part-time job classification process for new hires to ensure proper contributions to CERS. A decision matrix was developed by the Office of Internal Audit and approved by Kentucky Retirement System management as a possible solution to this problem
- LFUCG should require all Seasonal and Part-time employees, at the initial hiring date as well as any point during their employment with LFUCG, to notify Human Resources of any other employment that collectively makes them eligible to participate in CERS
- Parks & Recreation and Human Resources senior management need to establish a process whereby the oversight of Seasonal and Part-time employee pay rates is shared in order to ensure consistent compliance with wage parameters for specified positions, and any variances therein are reasonable and justifiable
- The Department of Law should confer with the Administration and Council regarding certain ambiguities between Section 22-59 (1) of the LFUCG Code of Ordinances and other ordinances that also address vacation and sick leave accrual
- LFUCG should consider converting to 100% direct deposit for payroll purposes with electronically issued pay stubs (risk observation only)

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.