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

December 9th, 2008

1:00 P. M.

1. The Equine Economy in Central Kentucky – Stevens
    - Equine Task Force Recommendations (p. 1)
    - Equine Task Force Priorities (p. 2)

2. Financial Discussions - Koch
    - Report of Revenue and Expenditures, October, 2008
    - Audit Report for 2008
    - Format of the 2010 Budget

3. Internal Audit Reports - Sahli
    - The Internal Audit Process (p. 3)
    - Summary of Audit Results – Division of Engineering Project Management (p. 4)
    - Summary of Audit Results – Haley Pike Landfill Collection Process (p. 5)

4. Man-O-War Projects and SLX Status – Conyers (p. 6-10)

Equine Task Force Recommendations for Committee Consideration:

- Create the Equine Economic Develop Office to advocate the interests of the horse Industry
- Enhance policies to create incentives for the stallion and sales industry
- Remove sales tax inequities for horse farm owners, (change classification of horses to livestock)
- Conduct regional branding, i.e. "blue horse"
- Encourage the use of industrial revenue bonds to support expansion of the equine industry and related businesses
- Strengthen and enhance the PDR program to maintain a viable factory floor for equine operations
- Remove barriers that prevent purses from being more equitable with racetracks in other states

Priorities

Equine Task Force

November 25, 2008

1. Economic Development
    a. Economic Development Initiative: Develop and integrate an equine initiative with existing economic development efforts. (Caution: Do not establish a new stand alone effort that becomes a new silo and competes with existing economic development efforts.)
    b. Develop a strategic effort that includes:
        i. Defining an equine cluster business model to take advantage of the concentration of horse-related businesses,
        ii. Utilization of the equine cluster to create new jobs and new value for the region and the Commonwealth.

2. Public Policy
    a. Develop an economic development incentive program to make us a viable equine business destination. (Local/State)
    b. Remove sales tax inequities for horse farm owners
    c. Aggressively pursue the University of Kentucky equine agenda for research and development.

3. Imaging/Marketing
    a. Build our image around our global brand "the horse." Further, support the image of "Big Lex" as an iconic representation supporting our brand.
    b. Develop an "Appreciation Campaign" – a statewide public relations effort to educate the Commonwealth on the economic "value-add" of the equine industry.
    c. Further enhance farm tours by better connecting the farm owner/managers with the public.
    d. Better promote our horse farms via local/regional signage opportunities (i.e.-LexTran buses and (new) trolley's, etc.)

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 ENGINEERING PROJECT MANAGEMENT
SUMMARY OF AUDIT RESULTS

The Office of Internal Audit completed an audit of Division of Engineering Project Management on October 8, 2008. The Division of Engineering is responsible for project design, right of way acquisition, and coordination of activities to facilitate utility relocations and construction. Division of Engineering capital projects often require a coordinated effort between several LFUCG Divisions, but the Division of Engineering is responsible for managing actual project construction.

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

- Project information was sufficient to allow for efficient and effective project management
- Projects were properly managed to ensure timely completion
- Project costs were clearly identified in the PeopleSoft System and could be tracked for reporting and cost allocation purposes
- Change orders were properly documented and their necessity clearly defined
- Change order costs were effectively managed

The following findings were reported to senior management:

- Taken as a whole, capital project information was significantly disconnected and did not lend itself to overall project organization or evaluation.
- A centralized database is needed to capture all capital project financial information, change order activity, track payments made to vendors, and monitor the budget status of projects. This database should also track anticipated completion dates, major project delays, and actual versus projected project costs. It should also include features to identify possible trends of intentional low bidding, establish a history of change order activity among Divisions, contractors and types of projects, and provide a history of contractor performance standards that can be used to evaluate future contractor selection.
- There was insufficient project coordination and communication between Divisions involved in a given capital project, with no clear assignment of overall project management responsibility. Overall authority and responsibility for capital project coordination and management should be assigned to a specific Division or group in order to increase project accountability and improve the effectiveness of capital project management.
- A universal project numbering convention should be established in order to assign unique identifiers to each capital project. This identifier should be assigned to all related contracts, change orders, and financial transactions so that activity may be matched to its specific project throughout its life cycle regardless of the type of document, transaction, or the input source.
- Detailed tracking of Change Order activity was lacking and needs to be incorporated into the recommended project management database.
- Change Orders that increase project costs should be reviewed and approved by the Division of Purchasing prior to their being submitted to Council.

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.

HALEY PIKE LANDFILL COLLECTION PROCESS
SUMMARY OF AUDIT RESULTS

The Office of Internal Audit completed an audit of the Haley Pike Landfill Collection Process on September 29, 2008. The Haley Pike Construction & Demolition Landfill is a 35-acre landfill operated by the Lexington Fayette Urban County Government. The landfill accepts bricks, concrete, yard waste, furniture, roofing shingles, metals, paper products, insulation and wood. Customers pay a disposal fee based on the weight and type of waste as determined by the Landfill's Scale House operations AutoScale system.

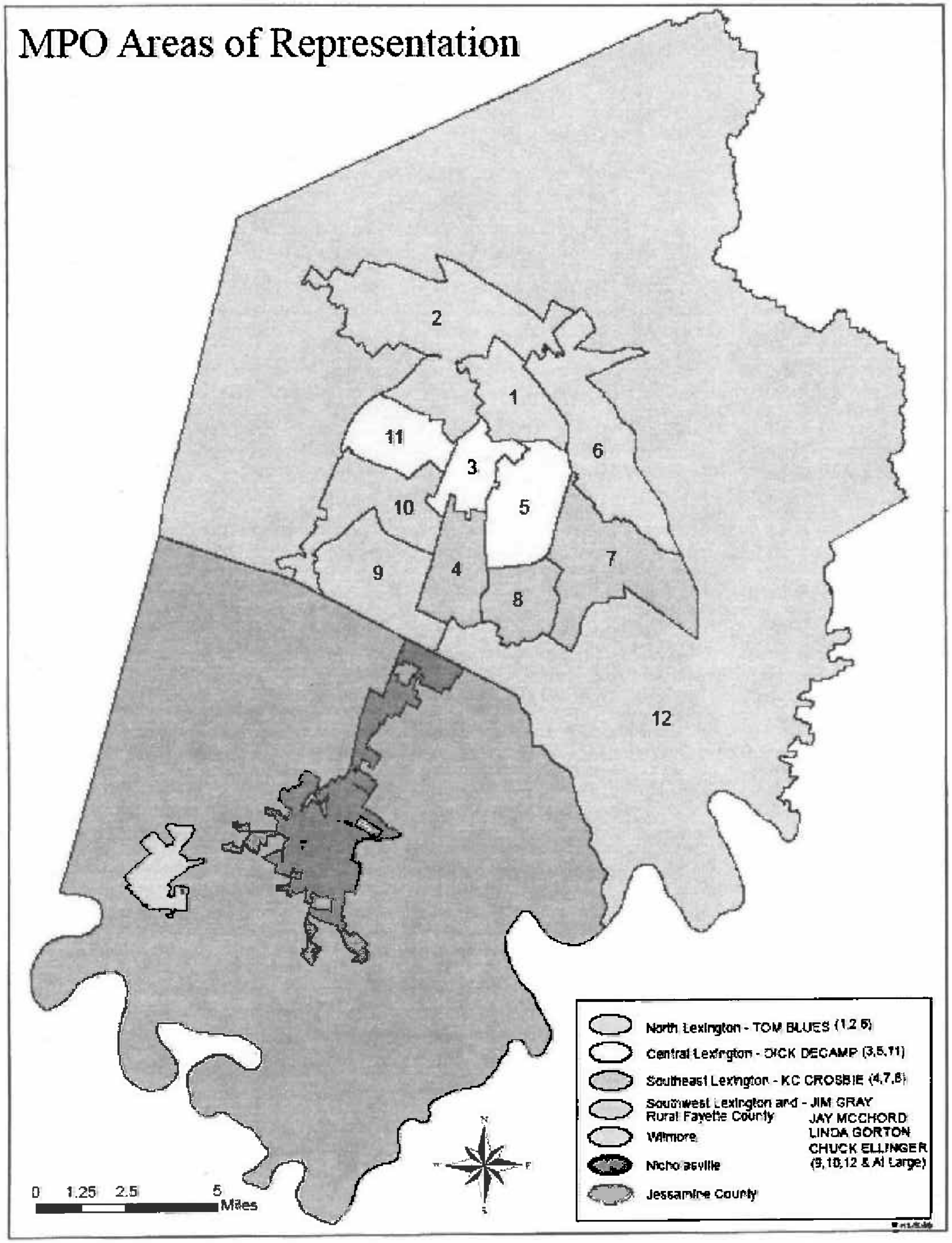
The general control objectives for the audit were to determine that:

- Controls over cash and cash receipts were sufficient and functioning properly
- Cash receipts were accurately deposited on a timely basis
- Physical security procedures were in place and being followed
- Written cash handling policies and procedures were current and being adhered to
- Landfill usage rates were consistent with any related ordinances and appropriate charges were being accurately assessed

The following findings were reported to senior management:

- Landfill employees responsible for generating weigh tickets and collecting their related cash payments had the ability to add and/or edit transaction data in the AutoScale system, and there was no process in place to ensure that daily Online Reports per AutoScale agree with the related weigh tickets.
- A daily report totaling all daily transactions by cash and charge card transactions was needed. This report should be reconciled by management personnel to the daily weigh tickets for agreement on a daily basis, and to the daily deposit report.
- One employee at the Division of Revenue created accounts for charge customers who would be using the landfill on a recurring basis. This employee also sent out the monthly billing to customers, addressed customer billing issues, and received charge customer payments, creating a segregation of duties issue.
- A monthly report of Landfill customer charge accounts, complete with aging and write-off activity, should be provided to the Director of Revenue.
- The landfill did not have written procedures regarding the service of non-cash customers, deposit preparation, cash handling, or the safeguarding of cash.
- AutoScale transaction backup procedures were limited to a monthly download sent to the Department of Revenue. If possible, transaction data should be backed up at least weekly to improve data security and recovery controls.

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.


MPO Areas of Representation
1
2
3
4
5
6
7
8
9
10
11
12
North Lexington - TOM BLUES (1,2,6)
Central Lexington - DICK DECAMP (3,5,11)
Southeast Lexington - KC CROSBIE (4,7,8)
Southwest Lexington and Rural Fayette County - JIM GRAY
JAY MCCHORD
LINDA GORTON
CHUCK ELLINGER
(9,10,12 & At Large)
Wilmore
Nicholasville
Jessamine County
N
E
0 1.25 2.5 5
Miles

Man O' War Boulevard 2007 Traffic Study
Recommended Low Build Project Rankings

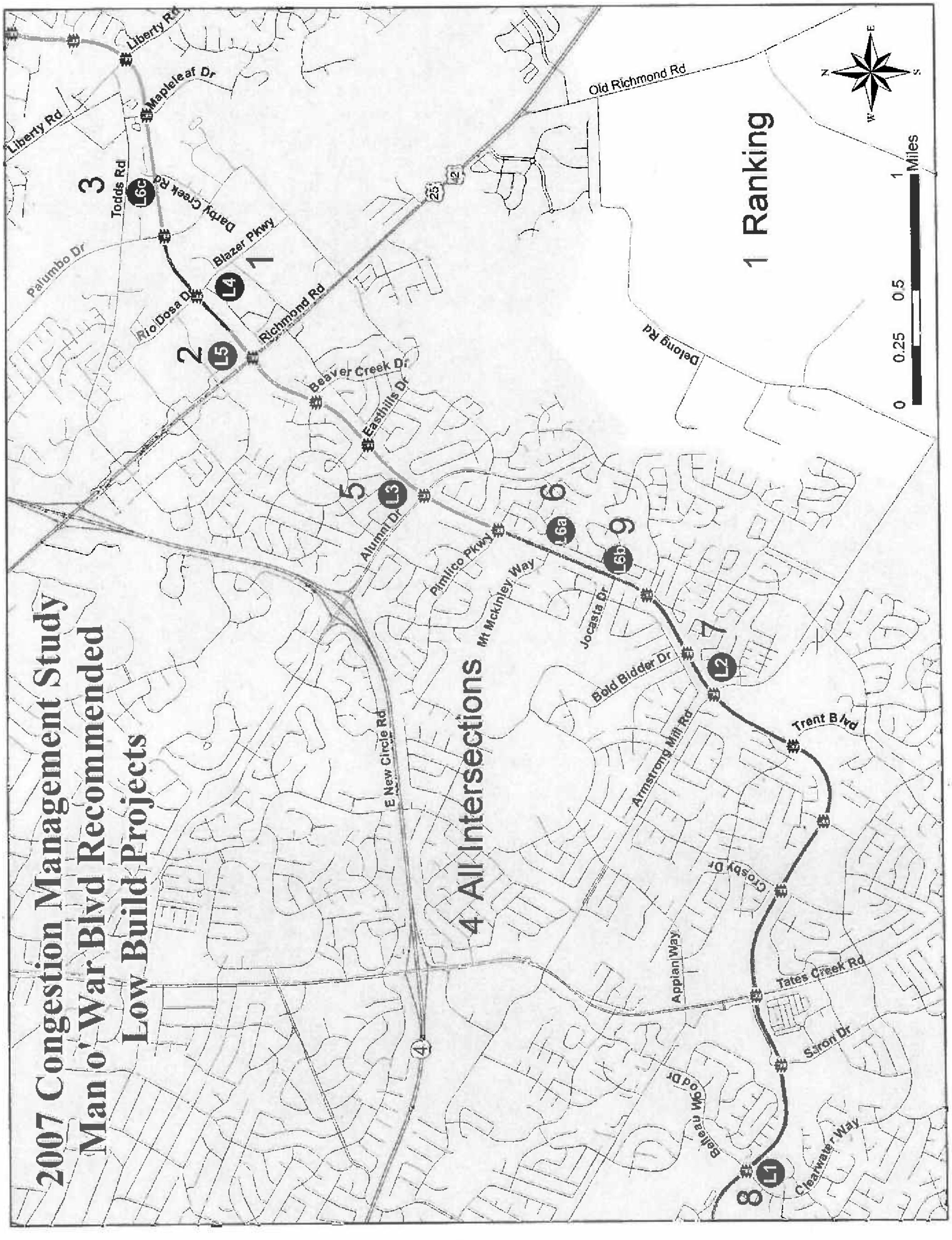
The *Man O' War Boulevard Traffic Study Final Report* was submitted to LFUCG in August 2007. The report included a listing of "Low Build" projects which are expected to provide a high impact on capacity and safety at a relatively low cost.

The LFUCG Council requested the staff (LFUCG Traffic, Engineering, Planning) to analyze these projects and prioritize them. Listed below are the 7 projects (now 9 projects due to staff's decision to break-out L6 into 3 separate projects) and the staff's recommended rankings. These rankings are based on project prioritization process being refined to analyze potential projects for the upcoming Lexington Area MPO 2035 Transportation Plan (to be approved in mid 2009). Criteria used included, but was not limited to, the following areas:

- ✓ Safety
- ✓ Economic vitality
- ✓ Congestion reduction
- ✓ Public and local official support
- ✓ Project feasibility

Staff recommendations (LFUCG Traffic, Engineering, Planning):

Ranking	*Project ID*	*Description*
1	L4	**Blazer Pkwy** – dual left turn lanes from WB MOW; dual left turn lanes from Blazer
2	L5	**Richmond Rd** – extend right turn lane from WB MOW to NB Richmond Rd
3	L6c	**Darby Creek** – restrict turning and through movements from cross street
4	L7	**Intersection crash countermeasures along MOW** – addition signal heads, backplanes, flashing yellow arrow signals
5	L3	**Alumni Drive** – channelized WB (inner loop) right turns w/yield onto Alumni; widen SB Alumni to provide dual left turn lanes
6	L6a	**Mt McKinley** – restrict turning and through movements from cross street
7	L2	**Armstrong Mill Rd** – extension of NB turning bays
8	L1	**Clearwater Way** – extension of NB turning bays
9	L6b	**Jocasta Way** – restrict turning and through movements from cross street


2007 Congestion Management Study
Man o' War Blvd Recommended
Low Build Projects
4 All Intersections
1 Ranking
Liberty Rd
Mapleleaf Dr
Todds Rd
Darby Creek Rd
Palumbo Dr
Blazer Pkwy
Rio Dosa Dr
Richmond Rd
Old Richmond Rd
Beaver Creek Dr
Easthills Dr
Alumni Dr
Pimlico Pkwy
Mt Mckinley Way
Jocasta Dr
Bold Bidder Dr
Armstrong Mill Rd
Trent Blvd
Crosby Dr
Appian Way
Tates Creek Rd
Saron Dr
Belleau Wood Dr
Clearwater Way
E New Circle Rd
Delong Rd
L1
L2
L3
L4
L5
L6a
L6b
L6c
0 0.25 0.5 1 Miles

PROPOSED SLX ALLOCATIONS 2009-2014

Project	2009	Phase	2010	Phase	2011	Phase	2012	Phase	2013	Phase	2014	Phase	Future	Phase
Leestown Rd	→	C	$4,856,384	C										
Clays Mill Rd - Section 1									$319,070	R			$12,138,251	U/C
Clays Mill Road - Section 2a	$4,160,000	C												
Clays Mill Road - Section 2b			→				$5,053,394	C						
Clays Mill Road - Section 2c	→		$4,099,264	C										
Liberty/Todds Rd - Section 1B	$3,870,000	C												
Liberty/Todds Rd - Section 2	→		→		$4,559,516	R/U			$5,791,268	C	$6,782,110	C		
Citation Blvd	$129,426	D												
Richmond Rd Multi-Use Path	$580,000	C												
* Brighton East Rail Trail														
South Elkhorn Trail - Section 1														
South Elkhorn Trail - Section 2	$250,000	C												
South Elkhorn Trail - Section 3			$465,088	C										
* West Hickman Trail														
Rose Street Bike Lane	$177,100	R/C												
* Town Branch Trail														
Continuing Programs	$650,000	P	$650,000	P	$650,000	P	$650,000	P	$650,000	P	$650,000	P	$650,000	P
Total Costs	$9,816,526		$10,070,736		$5,209,516		$5,703,394		$6,760,338		$7,432,110		$12,788,251	
Carryover Balance	$10,000,000		$5,808,474		$1,612,738		$2,278,222		$2,449,828		$1,564,490		$7,380	
SLX Apportionment	$4,500,000		$4,700,000		$4,700,000		$4,700,000		$4,700,000		$4,700,000			
Apportionment Matched	$5,625,000		$5,875,000		$5,875,000		$5,875,000		$5,875,000		$5,875,000			
Balance	5,808,474.00		1,612,738.00		2,278,222.00		2,449,828.00		1,564,490.00		7,380.00		($12,780,871)	

Notes:

All figures are 100% amount (include local match).

Figures beyond 2009 are adjusted for Year of Expenditure (YOE).

P= Planning; D= Design; R= Right of way and easement acquisition; U= Utility relocation; C= Construction.

* denotes a project for which funding has been programmed for all phases prior to FY 2009.