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

AGENDA

BUDGET AND FINANCE COMMITTEE

July 7, 2009

1:00 P. M.

1. Update on Revenues FY 2009 and Discussion – Fister/O'mara

2. Division of Engineering New Development Section Audit – Sahli
   - The Internal Audit Process (p.1)
   - Summary of Audit Results (p. 2 & 3)

3. General List of Recommendations From Council Links
   - Recommendations Schedule II (p. 4-6)

4. Discussion on Fund Balance for Urban Services District Fund
   - Summary of Revenue & Appropriations (p. 7)

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.

ENGINEERING NEW DEVELOPMENT SECTION PROCESS
SUMMARY OF AUDIT RESULTS

The Office of Internal Audit completed an audit of Division of Engineering New Development Section (NDS) processes on June 19, 2009, in response to an Urban County Council special request.

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

- The Division of Engineering NDS inspection process is efficient and effective.
- Field Inspectors and Engineers have the necessary training & experience to perform their required duties.
- Field inspections are completed timely and are adequately documented.
- The field inspection process is sufficiently managed and anomalies are resolved in a timely manner.
- The problem resolution process is effective, sufficiently documented, and communicated to all stakeholders.

The following findings were reported to senior management:

- Management should develop standardized documentation requirements for field inspections to ensure that documented results of inspections indicate inspections were appropriately conducted. Management should also develop procedures to provide oversight and monitoring of field inspections to ensure timely, accurate, and thoroughly documented field inspections that comply with all federal, state, and local regulations. Division of Engineering management should periodically validate reported inspections by conducting random, unannounced field level reviews of inspection work performed.
- Management should develop improved documentation requirements for inspections affecting Letter of Credit amounts. Division of Engineering management should periodically validate reported inspections by conducting random, unannounced field level reviews of inspection work performed.
- The NDS reporting structure should be reorganized to provide, at a minimum, the assignment of direct supervision of field level personnel to one supervisor to improve the management and accountability of that function.
- There is no systematic process for NDS problem tracking and resolution. Management should coordinate with LexCall to obtain database tracking regarding the nature of issues reported, and to determine if assigned NDS employees have implemented timely and appropriate steps to resolve the issues. This database tracking will also provide NDS management a systematic database of information regarding issues that may have several years of history associated with them.
- The duties of Project Coordinator should be assigned to a Licensed Professional Engineer as required by the Engineering Procedures Manual to ensure the highest level of professional competency in the Project Coordinator position.

- Licensed Professional Engineer seals should be obtained for submitted construction plan documents as required by the Engineering Procedures Manual, including any amendments to original plans, as they become the new representations of the external engineering firms.
- In our opinion, LFUCG should continue the current practice of placing reliance on external Licensed Professional Engineers to provide detailed reviews of development plans, while Division of Engineering personnel should continue to perform limited reviews of such plans.
- Documentation of commercial preconstruction meetings needs to be improved to increase the overall accountability of this process. These meetings are required before grading permits can be issued.
- Engineering management should request that Information Technology update the NDS database to include the documentation of commercial inspections.
- Supplemental commercial files (e.g., for building reconstruction) should contain checklists to insure personnel are aware of and document compliance with all required project meetings and inspections.

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 LINKS

I. Public Works

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

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

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III. General Services - Facilities and Fleet Management

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.

III. General Services - Facilities and Fleet Management - Cont'd

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

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

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 -

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

VII. 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.

vii. 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.

Summary of Revenue and Appropriations
FY 2010 Council Proposed Budget
Full Urban Services District Fund

	FY 2008 Actual	FY 2009 Adopted	FY 2010 Council Adopted	Change	% Change
Revenue					
Ad Valorem Taxes	$ 31,945,967	$ 33,527,400	$ 34,430,000	$ 902,600	2.7%
Licenses and Permits	1,252,423	1,435,000	1,270,000	(165,000)	-11.5%
Services	9,550	6,000	-	(6,000)	-100.0%
Property Sales	158,729	30,000	1,334,000	1,304,000	4346.7%
Investments	608,601	322,000	-	(322,000)	-100.0%
Other Income	2,120,170	1,230,000	730,000	(500,000)	-40.7%
Total Revenue	$ 36,095,441	$ 36,550,400	$ 37,764,000	$ 1,213,600	3.3%
Fund Balance, July 1	26,852,738	23,790,020	19,448,270	(4,341,750)	-18.3%
Total Funds Available	$ 62,948,179	$ 60,340,420	$ 57,212,270	$ (3,128,150)	-5.2%
Appropriations					
Operating Expenditures					
Personnel	$ 12,675,167	$ 16,027,190	$ 17,068,070	$ 1,040,880	6.5%
Debt Service	191,543	165,460	117,830	(47,630)	-28.8%
Insurance	3,359,731	1,329,600	656,400	(673,200)	-50.6%
Operating	12,579,525	15,859,490	17,981,200	2,121,710	13.4%
Transfers To\(From) Other Funds	640,537	567,910	229,200	(338,710)	-59.6%
Total Operating	$ 29,446,503	$ 33,949,650	$ 36,052,700	$ 2,103,050	6.2%
Capital Expenditures					
CIP Capital	$ 1,307,020	$ 3,480,000	$ 2,450,000	$ (1,030,000)	-29.6%
Operating Capital	1,867,200	3,462,500	11,141,500	7,679,000	221.8%
Total Capital	$ 3,174,220	$ 6,942,500	$ 13,591,500	$ 6,649,000	95.8%
Total Appropriations	$ 32,620,722	$ 40,892,150	$ 49,644,200	$ 8,752,050	21.4%
Fund Balance, June 30	$ 30,327,456	$ 19,448,270	$ 7,568,070	$ (11,880,200)	-61.1%