

**LEXINGTON-FAYETTE URBAN
COUNTY GOVERNMENT**

**SINGLE AUDIT REPORTS
UNDER OMB CIRCULAR A-133**

**For The Year Ended
June 30, 2011**

CONTENTS

	<u>PAGE</u>
Independent Auditors' Report on Internal Control Over Financial Reporting And on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	3
Schedule of Expenditures of Federal Awards.....	6
Notes to the Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs.....	10
Schedule of Prior Audit Findings	15

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

DEAN || DORTON || ALLEN || FORD_{PLLC}

**Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance With
*Government Auditing Standards***

The Honorable Mayor, Members of the
Urban County Council and Citizens
Lexington-Fayette Urban County Government
Lexington, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Lexington-Fayette Urban County Government (the Government) as of and for the year ended June 30, 2011, which collectively comprise the Government's basic financial statements and have issued our report thereon dated January 11, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Lexington Transit Authority, Lexington Convention and Visitors Bureau, Lexington Public Library, Lexington-Fayette Urban County Airport Board, Lexington-Fayette Urban County Department of Health, and the Lexington Center Corporation as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

Management of the Government is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Government's internal control over financial reporting 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 Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying *Schedule of Findings and Questioned Costs*, we identified certain deficiencies in internal control over financial reporting 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Government's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as items 2011-01 and 2011-02 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Government in a separate letter dated March 28, 2012.

The Government's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the Government's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, Urban County Council, management, others within the Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
January 11, 2012

**Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material
Effect on Each Major Program and Internal Control Over Compliance in Accordance With
OMB Circular A-133**

DEAN || DORTON || ALLEN || FORD_{PLC}

Independent Auditors' Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133

The Honorable Mayor, Members of the
Urban County Council and Citizens
Lexington-Fayette Urban County Government
Lexington, Kentucky

Compliance

We have audited the compliance of Lexington-Fayette Urban County Government (the Government) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Government's major federal programs are identified in the summary of auditors' results section of the accompanying *Schedule of Findings and Questioned Costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Government's management. Our responsibility is to express an opinion on the Government's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Government's compliance with those requirements.

In our opinion, the Government complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying *Schedule of Findings and Questioned Costs* as item 2011-03.

Internal Control over Compliance

Management of the Government is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Government's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over compliance.

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as item 2011-04 to be a significant deficiency.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government as of and for the year ended June 30, 2011, and have issued our report thereon dated January 11, 2012. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the Government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Government's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit the Government's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, Urban County Council, management, others within the Government, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky

March 28, 2012, except for the third to last paragraph above
for which the date is January 11, 2012

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Expenditures of Federal Awards

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Federal Grant Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture:				
Direct Programs:				
Child Care Food Program	10.558	034-L95-999		\$ 76,615
Summer Lunch	10.559	034-X75-999SU		33,580
Urban Forestry	10.664	07-DG-11083121-004		2,670
Purchase of Development Rights (PDR)	10.913	68-SC16-9-152		1,942,976
Total U.S. Department of Agriculture				<u>2,055,841</u>
U.S. Department of Housing and Urban Development				
Direct Programs:				
CDBG Cluster:				
Community Dev Block Grant	14.218	B09MC210004		1,884,174
Community Dev Block Grant	14.218	B10MC210004		160,973
				<u>2,045,147</u>
Community Dev Block Grant-R - ARRA	14.253	B-08-MY-21-0004		130,418
Total CDBG Cluster				<u>2,175,565</u>
Emergency Shelter	14.231	S10MC210003		66,585
HOME	14.239	M08MC210201		125,334
HOME	14.239	M09MC210201		621,104
HOME	14.239	M10MC210201		66,052
Housing Opp for Pers with AIDS (HOPWA)	14.241	KY-H08-0007		456,147
HPRP_R_2010 - ARRA	14.257	S-09-MY-21-0003		293,841
Passed through Commonwealth of Kentucky:				
Neighborhood Stabilization Program-Land	14.228		09N-043	236,199
Neighborhood Stabilization Program-REACH	14.228		09N-042	28,681
Total U.S. Department of Housing and Urban Development				<u>4,069,508</u>
U.S. Department of Justice:				
Direct Programs:				
Police Confiscated Funds	16.N/A	NA		1,143,872
Safe Havens	16.527	2010-CW-AX-K013		21,709
Arrest Policy	16.590	2006-WF-AX-0053		173,642
SCAAP	16.606	2008-AP-BX-0101		18,000
SCAAP	16.606	2008-AP-BX-0951		67,379
SCAAP	16.606	2009-AP-BX-0454		6,024
SCAAP	16.606	2010-H5414-KY-AP		143,243
Bulletproof Vests	16.607	6133999		287
Bulletproof Vests	16.607	07037695		4,355
Bulletproof Vests	16.607	2009 BOBX 080 41220		326
Bulletproof Vests	16.607	2009 BOBX 090 47311		2,019
Bulletproof Vests	16.607	2010-BOBX-10051351		1,815
Project Safe Neighborhoods	16.609	2007-GP-CX-0068		34,858
Project Safe Neighborhoods	16.609	2008-GP-CX-0060		37,843
Project Safe Neighborhoods	16.609	2010-GP-BX-0020		17,910
Justice Assistance Grant	16.738	2007-DJ-BX-0457		199
Justice Assistance Grant	16.738	2009-DJ-BX-0469		363,528
Anti Gang Initiative	16.744	2007-PG-BX-0094		77,930
Justice Assistance Grant (JAG) Recovery - ARRA	16.804	2009-SB-BP-1627		291,462
Redeploy-ARRA	16.808	2009-SC-B9-0104		239,794
Passed through Commonwealth of Kentucky:				
Cold Case Squad	16.738		PON252510000025561	49,174
Enforcing Underage Drinking Laws	16.727		2009-AH-FX-0089	15,012
Juv Accountability Block Grant	16.523		2007-JB-FX-0041 (101)	4,715
Juv Accountability Block Grant	16.523		JABG-2011-LFUCG-00011	9,224
PALYEP	16.541		2009-DD-BX-0249	5,639
Police Activity League-ARRA	16.541		2009-SC-B9-0162	14,425

The accompanying notes are an integral part of this schedule.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Federal Grant Number	Pass-through Grantor's Number	Federal Expenditures
Passed through Commonwealth of Kentucky:				
Domestic Violence Prevention Board	16.588		VAWA-2010-LFUCG-ST-00166	4,979
Safe Havens Recovery-ARRA	16.588		VAWA-ARRA-2009	52,134
Safe Sun	16.588		VAWA-2010-LFUCG-ST-0	4,406
Sexual Assault Nurse Examiner (SANE)	16.588		VAWA-2008-00046	(2,666)
Sexual Assault Nurse Examiner (SANE)	16.588		VAWA-2009-LFUCG ST-00100	18,825
Sexual Assault Nurse Examiner (SANE)	16.588		VAWA-2010-LFUCG ST-00132	15,792
Sexual Assault Nurse Examiner (SANE2)	16.588		VAWA-2008-00012	(1,357)
Street Sales	16.579		2010-JAG-LFUCG-STRE-00655	99,877
Street Sales (Confiscated Funds)	16.579		2010-JAG-LFUCG-STRE-00655	21,472
Street Sales (Confiscated Funds)	16.579		2009-JAG-LFUCG-STREET SALES-002	11,334
PALYEP	16.726		2010-JU-FX-0025	3,066
Total U.S. Department of Justice				2,972,246
U.S. Department of Transportation:				
Passed through Commonwealth of Kentucky:				
Air Quality Planning	20.205		0800020840	61,053
Alexander Drive/Stone	20.205		P02-628-060003013	4,366
Brighton Rail Trail Bridge	20.205		PO2-628-0900022378	15,869
Citation Boulevard	20.205		C-05396856	1,023,960
Clays Mill Road	20.205		C-03328686	820,894
Coldstream Trail	20.205		P02-628-0800015657	44,687
Federal Highway Planning	20.205		1000005192	296,856
Fiber Optic Cable Installation	20.205		P02-628-0700013795	249,476
Fiber Optic Cable Installation	20.205		P02-628-0900022383	2,767
Grimes Mill Bridge	20.205		C-05354512	7,288
Hazard Elimination & Safety	20.205		0340027001003	5,181
Healthway	20.205		P02-628-0900024481	74,719
Intelligent Tranpor. System (ITS)	20.205		900024330	(754)
Intelligent Tranpor. System (ITS)	20.205		1000001289	339,935
Intelligent Tranpor. System (ITS)	20.205		1000002782	5,977
Liberty Road/Todds Road	20.205		C-00021586	3,732
Maine Chance	20.205		PO2-628-0700013769	121,354
Maxwell Bike Ped	20.205		PO2-628-0700008015	53,263
Newtown Landscape	20.205		PO2-628-0800015658	7,800
Newtown Pike	20.205		C-00343167	62,205
Newtown Pike	20.205		C-01261650	1,093,499
Newtown Pike Supplement #2	20.205		076-2011	12,333
Share The Road	20.205		PO2-628-0900022380	1,356
South Elkhorn Bike	20.205		KYTC Item 7-229	2,608
South Limestone	20.205		800015399	14,400
Tates Creek Sidewalks	20.205		PO2-628-0900022382	84,984
Town Branch	20.205		C-02182950	24,245
West Hickman	20.205		C-04482975	242,640
MCSAP	20.218		M-00800718583	53,166
MCSAP	20.218		No Number	13,604
Tact	20.218		No Number	24,574
Fed Transit Admin Section 5303	20.505		KY-80-0003-02	43,975
Mobility Office	20.505		MA-0800020840	14
Mobility Office	20.505		MA-8418201N	90,392
Traffic QC	20.600		K9-11-06	10,000
Traffic Safety	20.600		AL-10-20	12,263
Traffic Safety	20.600		AL-11-23	99,036
Traffic Safety Supplement	20.600		K2-11-46	23,380
Traffic SP	20.600		PT-11-26	24,231
Total U.S. Department of Transportation				5,071,328

The accompanying notes are an integral part of this schedule.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011
(Continued)

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Federal Grant Number	Pass-through Grantor's Number	Federal Expenditures
U.S. Environmental Protection Agency:				
Direct Programs:				
Environmental Justice	66.604	EQ-95416209-1		16,232
South Elkhorn Pump Station	66.604	XP-95438509-0		387,890
Brownfield Assessment Project	66.818	BF-95461610-0		17,219
Passed through Commonwealth of Kentucky:				
Street KIA - ARRA	66.458		A029-08	155,883
South Elkhorn Pump Station - KIA	66.458		A09-01	14,090,151
Wolf Run	66.460		C9994861-09	55,199
Total U.S. Environmental Protection Agency				<u>14,722,574</u>
U.S. Department of Health and Human Services:				
Direct Programs:				
Runaway Youth	93.623	90CY236401		32,615
Runaway Youth	93.623	90CY236402		118,468
Passed through Commonwealth of Kentucky:				
Senior Citizens	93.044		AS-2010-2011-2015	89,078
New Chance-Cab For Families	93.558		PON2 736 1000001491	422,257
Home Network	93.597		2008-2009-PUBLIC-R	163,588
Home Network	93.597		2009-2010-PUBLIC-R	153,653
Total U.S. Department of Health and Human Services				<u>979,659</u>
U.S. Department of Homeland Security:				
Passed through Commonwealth of Kentucky:				
Flood Mitigation Assistance	97.029		PON209509000115091	73,849
Hazard Mitigation Grant Prog.(HMGP_Plan)	97.039		PON209511000015691	607
Hazard Mitigation Grant Prog.(HMGP_Shan)	97.039		PON209511000007591	759,647
Hazard Mitigation Grant Prog.(HMGP_South)	97.039		PON209511000014261	745,219
Sugarmill	97.039		PON2-095-0600003029-1	478,569
Chemical Stockpile Emergency (CSEPP)	97.040		PON2 0700005552	12,440
Chemical Stockpile Emergency (CSEPP)	97.040		PON209508000112861	105,521
Chemical Stockpile Emergency (CSEPP)	97.040		PON209510000009491	265,630
Chemical Stockpile Emergency (CSEPP)	97.040		PON209511000014051	547
Emergency Management Assistance	97.042		PON209510000004871	40,267
Emergency Management Assistance	97.042		PON209511000006691	80,794
Search and Rescue	97.042		9ON209511000020731	13,062
Assistance to Firefighters Grant	97.044		EMW-2009-FO-06135	7,890
Assistance to Firefighters Grant (AFG_IFE)	97.044		EMW-2009-FP-01190	3,200
Fire Prevention & Safety	97.044		EMW-2008-FP-00190	(23)
Bomb Squad	97.067		P0209409000231341	99,669
Bomb Squad	97.067		PO209411000022141	82,708
Hazard Devices	97.067		PO209410000025171	16,197
State Homeland (FIRE)	97.067		P02 094 1100002237 1	17,207
State Homeland Dive	97.067		P02 094 1100002216 1	1,539
State Homeland Police	97.067		P02 094 1100002230 1	18,818
State Homeland Security (TRAINING)	97.067		P02 094 1000002541 1	(119)
State Homeland Security Communications	97.067		PO2 094 0800020544 1	107,484
Metro Medical Response System (MMRS)	97.071		PON2 094 0800020954 1	32,608
Metro Medical Response System (MMRS)	97.071		PON2 094 1000002389 1	111,982
Metro Medical Response System (MMRS)	97.071		PO2 094 1100002296 1	35,290
Total U.S. Department of Homeland Security				<u>3,110,602</u>
U.S. Department of Energy:				
Direct Programs:				
Energy Efficiency & Conservation Block Grant - ARRA	81.128	DE-EE0000728		826,067
Total U.S. Department of Energy				<u>826,067</u>
Total Expenditures of Federal Awards				<u>\$ 33,807,825</u>

The accompanying notes are an integral part of this schedule.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Lexington-Fayette Urban County Government and is presented on a modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 – Subrecipients

Of the federal expenditures presented in the Schedule, Lexington-Fayette Urban County Government provided federal awards to subrecipients as follows:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Amount Provided to Subrecipients</u>
14.218	Community Development Grant	\$ 537,969
14.228	Neighborhood Stabilization Program - Reach	28,681
14.231	Emergency Shelter Grant	54,000
14.239	HOME	242,611
14.241	Housing Opportunities for Persons with AIDS	446,991
14.253	ARRA - Community Development Block Grant	86,257
16.527	Safe Haven	12,174
16.590	Arrest Policy	29,174
16.579	Street Sales (Confiscated Funds)	52,703
16.588	Safe Sun	4,406
16.588	ARRA - Safe Havens Recovery	52,134
16.804	ARRA - Justice Assistance Grant Recovery	178,012
93.623	Runaway Youth	152,564

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: unqualified

Internal control over financial reporting:

- Material weakness(es): Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?: Yes No
- Significant deficiency(ies) identified? Yes None Reported

Type of auditors' report issued on compliance for major programs: Unqualified

- Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? Yes No

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.913	Purchase of Development Rights
14.257	ARRA Homelessness Prevention and Rapid Re-housing
16.N/A	Police Confiscated Funds
16.808	ARRA Redeploy
20.205	Highway Planning and Construction
66.458	South Elkhorn Pump Station - KIA
66.458	ARRA – Street KIA

Dollar threshold used to distinguish between Type A and Type B programs: \$1,014,000

Auditee qualified as a low-risk auditee? Yes No

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011
(Continued)

II. FINANCIAL STATEMENT FINDINGS

2011-01 Accounting treatment - LFUCG Comprehensive Development Exaction Program

Criteria:

Accounting principles generally accepted in the United State of America (GAAP) for governmental agencies require governmental fund financial statements use the current financial resources and modified accrual basis of accounting. Under this method of accounting, financial statements for governmental funds have a short-term emphasis and generally measure and account for cash and other assets that can easily be converted to cash.

Condition:

Revenue and related receivables from the LFUCG Comprehensive Development Exaction Program (the Exaction Program) were recognized within the governmental fund financial statements even though settlement of the exaction fees was expected to be made by the respective developers contributing non-cash infrastructure type assets, rather than making payment in cash.

Cause:

Personnel responsible for the accounting of exaction fees were not fully informed of the GAAP requirement that receivables which are to be settled with non-cash items should not be recognized within a governmental fund.

Effect or Potential Effect:

A prior period adjustment was made to the Roads, Parks, Open Space, Storm Water Exactions Fund statement of \$11,039,139, to remove the receivables and related revenue recognized through June 30, 2010.

Recommendation:

We recommend that the Government establish a formal policy and procedure as it relates to accounting for the Exaction Program to ensure the accounting treatment for all transactions which affect the governmental fund financial statements is in compliance with GAAP.

Government's Response:

The Government implemented appropriate procedures related to accounting for the Exaction Program. These procedures will be formalized in the written policies and procedures.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011
(Continued)

II. FINANCIAL STATEMENT FINDINGS, CONTINUED

2011-02 Internal Control Over Financial Reporting

Criteria:

The Standards for Internal Control in the Federal Government published by the U.S. Government Accountability Office provide that internal control is an integral component of an organization's management to provide reasonable assurance that an objective of reliable financial reporting is being achieved. Governmental entities should implement procedures to ensure this objective is achieved.

Condition:

Prior period adjustments were required to:

1. Adjust compensated absences balances with respect to the Police Department personnel;
2. Adjust capital assets balances for items previously incorrectly capitalized.

Cause:

The Government does not have defined controls in place to prevent and detect material misstatements in the preparation of the financial statements and related disclosures in conformity with generally accepted accounting principles, specifically, for the year ended June 30, 2010:

1. The Government did not review written policies (including collective bargaining agreements) to ensure compliance with stated policies related to accrued compensated absences for police employees;
2. The Government did not ensure that items classified as capital assets met the criteria of a capital asset based on the Government's accounting policies.

Effect of Potential Effect:

Prior period adjustments were necessary to correct the errors identified by management, some of which were deemed to be material to the financial statements.

Recommendation:

We recommend that the Government review and improve its financial closing and reporting procedures to incorporate controls that detect and prevent material errors in a timely manner. Further, the Government should consider performing an analysis of material balances on a monthly basis to ensure material adjustments are identified and corrected prior to the commencement of the annual financial statement audit.

Government's Response:

1. Finalized Collective Bargaining Agreements (CBA) are now sent to Accounting. Any changes in the CBA's related to Compensated Absences will be applied to accrued compensated absences per the CBA.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011
(Continued)

II. FINANCIAL STATEMENT FINDINGS, CONTINUED

2011-02 Internal Control Over Financial Reporting, continued

Government's Response, continued:

2. The Division of Accounting conducted a review of the Construction-in-progress asset category and discovered projects inappropriately capitalized. The majority of these projects were capitalized in prior years. The procedures currently in place for annual review will prevent these errors in the future.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2011-03 The Government should improve internal control policies and procedures related to the Department of Justice Asset Forfeiture Program

Federal Program:	CFDA #16.N.A – Police Confiscated Funds
Federal Agency:	U.S. Department of Justice
Compliance Area:	Reporting and Special Tests and Provisions
Amount of Questioned Costs:	\$0

Criteria:

As discussed in §___.300 of OMB Circular A-133 (the Circular), auditees shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs. In addition, the Department of Justice (DOJ) has issued *A Guide to Equitable Sharing for State and Local Law Enforcement Agencies* (the Guide) which establishes minimum internal control policies and procedures and other compliance requirements related to the DOJ Asset Forfeiture Program (the Program) which should be followed and implemented.

Condition:

During our testing of the Program, we noted that the Equitable Sharing Agreement and Certification Report (which is due within 60 days of the Government's fiscal year end) was not submitted in a timely manner and did not agree to the accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards (SEFA). The report was subsequently amended.

Cause:

The late filings of the annual report, and inconsistencies with the accounting records appear to have been caused by administrative oversight and delays in finalizing year-end financial information.

Effect or Potential Effect:

The Government is not in compliance with the requirements of the Program and the Guide.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011
(Continued)

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS, CONTINUED

2011-03 The Government should improve internal control policies and procedures related to the Department of Justice Asset Forfeiture Program, continued

Recommendation:

We recommend that the Government ensure that all reports are submitted timely and financial amounts reported be reconciled to accounting records, the audited financial statements and the SEFA.

Government's Response:

The Government will file future Equitable Sharing Agreement and Certification Reports within the required timeframe. Additionally, the Accounting Division will verify the amounts submitted agree to the accounting records that support the audited financial statements and the Schedule of Expenditures of Federal Awards (SEFA).

2011-04 The Government should improve internal control policies and procedures related to the preparation of the Schedule of Expenditures of Federal Awards

Criteria:

The Circular requires the Government to identify all Federal awards received and expended and the Federal program under which they were received. The Government is also required to prepare a SEFA for the period covered by the Government's financial statements in accordance with §___.310 of the Circular.

Condition:

The Government's internal control policies and procedures over the preparation of the SEFA did not accurately capture all expenditures of Federal awards such that CFDA #66.458 South Elkhorn Pump Station KIA program was omitted from the prior year SEFA. The program was only included in the current year SEFA as a result of procedures performed by the external auditor.

Cause:

The Government does not have processes in place to ensure accuracy and completeness of all awards reported in the SEFA.

Effect or Potential Effect:

The Government is not in compliance with OMB Circular A-133 requirements.

Recommendation:

We recommend that the Government review §___.310 of OMB Circular A-133, establish and improve internal control policies and procedures over preparation of the SEFA.

Government's Response:

The Government will carefully review KIA SRF Loan program agreements in the future to ensure proper procedures are followed for the SEFA.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2011

2010-01

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

Current Status: This finding was partially corrected in the current year; see 2011-02.

2010-02

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

Current Status: This finding was resolved during the year ended June 30, 2011.