

**LEXINGTON-FAYETTE URBAN
COUNTY GOVERNMENT**

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

**For The Year Ended
June 30, 2013**

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**Report of Independent Auditors 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***

**Report of Independent Auditors 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, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements and have issued our report thereon dated November 15, 2013. Our report includes a reference to other auditors who audited the financial statements of the Lexington Transit Authority, the Lexington Convention and Visitors Bureau, the Lexington Public Library, the Lexington-Fayette Urban County Airport Board, the 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

In planning and performing our audit of the financial statements, we considered the Government's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as items 2013-01 through 2013-03 that we consider to be significant deficiencies.

We noted certain matters that we reported to management of the Government in a separate letter dated March 31, 2014.

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*.

The Government's Responses

The Government's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The Government's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky
November 15, 2013

**Report of Independent Auditors on Compliance for Each Major Program;
on Internal Control Over Compliance; and on the Schedule of Expenditures
of Federal Awards Required OMB Circular A-133**

**Report of Independent Auditors on Compliance for Each Major Program;
on Internal Control Over Compliance; and on the Schedule of Expenditures
of Federal Awards Required OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited the Lexington-Fayette Urban County Government's (the Government) compliance with the types of compliance requirements described in the *OMB Circular A- 133 Compliance Supplement* that could have a direct and material effect on each of the Government's major federal programs for the year ended June 30, 2013. the Government's major federal programs are identified in the summary of auditor's results section of the accompanying *Schedule of Findings and Questioned Costs*.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Government's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Government's compliance.

Opinion on Each Major Federal Program

In our opinion, the Government complied, in all material respects, with the types of 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, 2013.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular No. A-133 and which is described in the accompanying *Schedule of Findings and Questioned Costs* as item 2013-04. Our opinion on each major federal program is not modified with respect to this matter.

The Government's response to the noncompliance findings identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The Government's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Government is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Government's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

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 a 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements and have issued our report thereon dated November 15, 2013, which contained unmodified opinions on those financial statements. Our report includes a reference to other auditors who audited the financial statements of the Lexington Transit Authority, the Lexington Convention and Visitors Bureau, the Lexington Public Library, the Lexington-Fayette Urban County Airport Board, the Lexington-Fayette Urban County Department of Health, and the Lexington Center Corporation, as described in our report on the Government's financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Dean Dotson Allen Ford, PLLC

Louisville, Kentucky

June 5, 2014, except for our report on the Schedule of Expenditures of Federal Awards
for which the date is November 15, 2013

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, 2013

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		\$ 16,861
Child Care Food Program	10.558	11475		59,236
Purchase of Development Rights (PDR)	10.913	68-5C16-11-128		1,017,107
Passed through Commonwealth of Kentucky:				
Emerald Ash Borer Treatment Site	10.664		PON2 128 1200003374	9,477
Total U.S. Department of Agriculture				1,102,681
U.S. Department of Housing and Urban Development:				
Direct Programs:				
CDBG - Entitlement Grants Cluster:				
Community Dev Block Grant	14.218	B10MC210004		280,806
Community Dev Block Grant	14.218	B11MC210004		1,705,401
Community Dev Block Grant-R - ARRA	14.253	B-08-MY-21-0004		189,829
				<u>2,176,036</u>
Emergency Solutions	14.231	E11MC210003		26,778
Emergency Solutions	14.231	E12MC210003		20,218
HOME	14.239	M10MC210201		798,200
Housing Opp for Pers with AIDS (HOPWA)	14.241	KY-H08-0007		5,274
Housing Opp for Pers with AIDS (HOPWA)	14.241	KY-H11-0012		401,029
Passed through Commonwealth of Kentucky:				
Neighborhood Stabilization Program-Land	14.228		09N-043	39,980
Neighborhood Stabilization Program-REACH	14.228		09N-042	419,827
Total U.S. Department of Housing and Urban Development				3,887,342
U.S. Department of Justice:				
Direct Programs:				
Police Confiscated Funds	16.NA	NA		510,673
Safe Havens	16.527	2010-CW-AX-K013		91,495
Arrest Policy	16.590	2011-WE-AX-0011		189,622
SCAAP	16.606	2011-AP-BX-0370		8,647
Bulletproof Vests	16.607	2011-BOBX-11055448		295
Bulletproof Vests	16.607	2012-BOBX-12064748		345
Project Safe Neighborhoods	16.609	2009-GP-BX-0020		32,424
Project Safe Neighborhoods	16.609	2010-GP-BX-0095		87,776
Project Safe Neighborhoods	16.609	2011-GP-BX-0027		1,840
Cops Hire	16.710	2011ULWX0015		408,910
JAG Program Cluster:				
Justice Assistance Grant	16.738	2009-DJ-BX-0469		1,035
Justice Assistance Grant	16.738	2010-DJ-BX-1245		242,444
Justice Assistance Grant	16.738	2011-DJ-BX-3120		77,579
Justice Assistance Grant	16.738	2012-DJ-BX-0432		113,181
Justice Assistance Grant (JAG) Recovery - ARRA	16.804	2009-SB-BP-1627		199,712
Total JAG Program Cluster				633,951
Passed through Commonwealth of Kentucky:				
Juv Accountability Block Grant	16.523		JABG-2012-LFUCG-0008	6,045
Juv Accountability Block Grant	16.523		JABG-2013-LFUCG St-00007	12,927
Sexual Assault Nurse Examiner (SANE)	16.588		VAWA-2011-LFUCG ST-00220	17,938
Sexual Assault Nurse Examiner (SANE)	16.588		VAWA-2012-LFUCG-ST-00296	11,441
Street Sales (Confiscated Funds)	16.738		2011-JAG-LFUCG STRE-00800	1,432
Street Sales	16.738		2012-JAG-LFUCG-STRE-00919	49,192
Street Sales (Confiscated Funds)	16.738		2012-JAG-LFUCG-STRE-00919	23,813
PALYEP	16.726		2010-JU-FX-0025	3,827
PALYEP	16.726		2011-JU-FX-0015	11,197
Total U.S. Department of Justice				2,103,790

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, 2013
(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. Department of Labor:				
Passed through Commonwealth of Kentucky:				
WIA	17.259		13-010Y	65,025
Total U.S. Department of Labor				<u>65,025</u>
U.S. Department of Transportation:				
Passed through Commonwealth of Kentucky:				
Air Quality Planning	20.205		1300000048	53,350
Alexandria Drive/Stone	20.205		P02-628-0800020946	128,260
Bicycle and Pedestrian Planning	20.205		1300000048	28,383
Brighton East	20.205		1000001796	80,185
Citation Boulevard	20.205		C-05396856	(5,194)
Clays Mill Road	20.205		C-03328686	765,260
Congestion Management	20.205		1300000048	53,986
Federal Highway Planning	20.205		1200004765	335,200
Fiber Optic Cable Installation	20.205		P02-628-0700013795	(686)
Fiber Optic Cable Installation	20.205		P02-628-0900022383	200,403
Gainesway Trail CMAQ Project	20.205		P02-628-0700013794	8,765
Grimes Mill Bridge	20.205		C-05354512	642
Illuminated Street Signs	20.205		P02-628-0900022381	347,599
Intelligent Tranpor. System (ITS)	20.205		1200000760	341,035
Intelligent Tranpor. System (ITS)	20.205		P02-625-1300000653	8,172
Legacy Trail Enhancements	20.205		P02-625-1200003879	79
Lexington Traffic	20.205		P02-625-1200001306	245,445
Liberty Road/Todds Road	20.205		C-04073306	212,777
Loudon Avenue Project	20.205		C-02279716	(62)
Loudon Avenue Sidewalk Project	20.205		P02-628-1100001626	20,018
Newtown Pike	20.205		C-00343167	40,222
Newtown Pike Supplement #1	20.205		C-00343167	59,173
Newtown Pike Supplement #2	20.205		C-00343167	1,700,698
Old Frankfort Pike Corridor	20.205		P02-628-1200001790	37,440
Rose Street Bike Lanes	20.205		C-01099430	3,200
Share The Road	20.205		P02-628-0900022380	22,012
South Elkhorn Bike	20.205		KYTC Item 7-229	540
South Limestone Streetscape	20.205		P02-628-1100004324	31,217
Southland	20.205		P02-628-1100001374	28,320
Tates Creek Sidewalks	20.205		P02-628-1300001250	3,455
Town Branch	20.205		P02-628-1200004353	1,363
Mobility Office	20.205		MA-1300000048	67,417
MCSAP	20.218		No Number	50,530
MCSAP	20.218		No Number	31,178
Tact	20.218		No Number	15,756
Tact	20.218		No Number	15,151
Cool Trail	20.219		1000003084	4,812
Fed Transit Admin Section 5303	20.505		KY-80-0003-04	48,400
Highway Safety Cluster:				
Traffic Safety	20.600		AL-12-22	15,461
Traffic Safety	20.600		AL-13-16	107,358
Traffic SP	20.600		PT-12-30	3,917
Traffic SP	20.600		PT-13-37	25,000
Traffic Safety Supplement	20.602		K2-13-17	10,000
Total Highway Safety Cluster				<u>161,736</u>
Total U.S. Department of Transportation				<u>5,146,237</u>

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, 2013
(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:				
Brownfield Assessment Project	66.818	BF-95461610-0		41,328
Passed through Commonwealth of Kentucky:				
Wolf Run	66.460		C9994861-09	30,704
Total U.S. Environmental Protection Agency				<u>72,032</u>
U.S. Department of Health and Human Services:				
Direct Programs:				
Runaway Youth	93.623	90CY236403		99,331
Passed through Commonwealth of Kentucky:				
Senior Citizens	93.044		AS-2012-2013-2015	109,899
New Chance-Cab For Families	93.558		PON2 736 1200001514	285,532
Home Network	93.597		2010-2011-PUBLIC-R	46,577
Home Network	93.597		2011-2012-PUBLIC-R	273,768
Total U.S. Department of Health and Human Services				<u>815,107</u>
U.S. Department of Homeland Security:				
Passed through Commonwealth of Kentucky:				
Hazard Mitigation Grant Prog.(HMGP_Fire)	97.039		PON209511000015692	97,125
Hazard Mitigation Grant Prog.(HMGP_Plan)	97.039		PON209511000015692	28,876
Hazard Mitigation Grant Prog.(HMGP_South)	97.039		PON209511000014261	39,968
Chemical Stockpile Emergency (CSEPP)	97.040		PON209510000009494	51,530
Chemical Stockpile Emergency (CSEPP)	97.040		PON209511000014052	157,362
Chemical Stockpile Emergency (CSEPP)	97.040		PON209512000005372	258,054
Chemical Stockpile Emergency (CSEPP)	97.040		PO209513000036521	28,783
Emergency Management Assistance	97.042		PON209511000003831	37,226
Emergency Management Assistance	97.042		PON209513000006711	79,646
Bomb Squad	97.067		PO209412000030072	156,295
State Homeland Police	97.067		P02 094 1200003009 2	11,485
State Homeland Training	97.067		PO2 094 1200003012 2	23,800
Metro Medical Response System (MMRS)	97.067		PO2 094 1100002296 5	114,448
Metro Medical Response System (MMRS)	97.067		P02 094 1200003498 4	138,493
Staffing for Adequate Fire & Emerg Response	97.083		EMW-2011-FH-00445	175,476
Total U.S. Department of Homeland Security				<u>1,398,567</u>
U.S. Department of Energy:				
Direct Programs:				
Energy Efficiency & Conservation Block Grant - ARRA	81.128	DE-EE0000728		421,349
Total U.S. Department of Energy				<u>421,349</u>
Total Expenditures of Federal Awards				<u>\$ 15,012,130</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, 2013

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 Block Grant	\$ 507,778
14.231	Emergency Shelter	18,624
14.239	HOME	790,064
14.241	Housing Opportunity for Persons with AIDS	390,372
14.253	Community Development Block Grant - ARRA	4,340
16.609	Project Safe Neighborhoods	62,232
16.527	Safe Haven	86,910
16.590	Arrest Policy	60,132
16.738	Justice Assistance Grant	14,276
16.738	Justice Assistance Grant - Street Sales	56,953
16.804	Justice Assistance Grant (JAG) Recovery - ARRA	21,509
93.623	Runaway Youth	62,815

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

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: Unmodified

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>
14.218	Community Development Block Grant
14.228	Neighborhood Stabilization Program
14.253	Community Development Block Grant - ARRA
16.710	Cops Hire
16.738	Justice Assistance Grant
16.804	Justice Assistance Grant (JAG) Recovery - ARRA
20.205	Highway Planning and Construction
97.042	Emergency Management Assistance
97.083	Staffing for Adequate Fire & Emergency Response

Dollar threshold used to distinguish between Type A and Type B programs: \$450,364

Auditee qualified as a low-risk auditee? Yes No

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013
(Continued)

II. FINANCIAL STATEMENT FINDINGS

2013-01 Segregation of Duties – Access to PeopleSoft

Criteria:

The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the Government's assets and ensure accurate financial reporting. Additionally, access to PeopleSoft should be restricted to ensure personnel have access only to those applications and transaction types necessary for their position.

Condition:

Employees of the Government have access levels not necessitated by their respective role. Personnel have access to PeopleSoft that allow a breach of segregation of duties (for example, certain employees have access to prepare and authorize transactions). Periodic logical segregation of duty reviews are not being performed. Additionally, there are too many Domain Administrators for the Windows Active Directory domain.

Cause:

There is a lack of formal policies and procedures regarding access levels and logical segregation of duties.

Effect or Potential Effect:

Allowing employees to have too many privileges can be conducive to fraud or errors remaining undetected.

Recommendation:

While the Government has made improvements in this area during the year ended June 30, 2013, we recommend that formalized policies should be continue to be developed to identify the access requirements of PeopleSoft users to ensure the level of access is appropriate for the position and that segregation of duties is not breached. The Government should perform periodic reviews of user access to the PeopleSoft system to ensure logical segregation of duties is not being breached. Additionally, a review of membership in the Domain Administrator group should be performed on an annual basis and users should be removed from the group if the level of access is not necessary.

Government's Response:

Formalized IT policy development is regular and ongoing. Additionally, user access reviews continue on a quarterly basis. Most significantly, IT staff access to PeopleSoft is mitigated via the compensating controls established in the division's Segregation of Duties Policy, which was finalized on September 9, 2013.

We acknowledge the Windows Domain Administrator deficiency and will establish a plan to remediate this issue.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013
(Continued)

II. FINANCIAL STATEMENT FINDINGS, CONTINUED

2013-02 Informational Technology Systems – Safeguard and Security

Criteria:

A strong information technology (IT) environment is essential to the maintenance of the electronic data held by the Government and to prevent unauthorized access to the Government's information technology systems.

Condition:

During our review of the Government's IT systems and related controls, we identified the following:

- Password improvements are needed for access to the Government's network and access to PeopleSoft
- Password improvements are needed for access by the Division of Enterprise IT Solutions (DES) personnel
- Passwords are not adequately secured by all Government employees and are at times shared with other employees
- Active Directory user accounts are not being timely updated to disable access no longer required
- The Government does not have a formal policy and procedure to perform network vulnerability and penetration assessments across the entirety of the systems in order to appropriately identify weaknesses and areas for improvements in the Government's network environment
- The Government does not have a fully executed formal disaster recovery plan

Cause:

The conditions are caused by:

- Not having adequate password policies in place for the network and PeopleSoft,
- Not instituting a policy to at least annually perform network vulnerability and penetration assessments across all systems and platforms,
- Not completing the development of a disaster recovery plan.

Effect or Potential Effect:

Unauthorized access to the Government's computers or network could result in the loss of data, violation of privacy rules and regulations, and losses to the Government through misappropriation of assets. The irrecoverable loss of data could compromise the Government's ability to provide the necessary financial information for reporting to the Urban County Council or the citizenry.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013
(Continued)

II. FINANCIAL STATEMENT FINDINGS, CONTINUED

2013-02 Informational Technology Systems – Safeguard and Security, continued

Recommendation:

While the Government has made improvements in this area during the year ended June 30, 2013, we recommend that the Government continue to review its current IT safeguard and security policies and procedures and ensure the following:

- Password policies are strengthened so that, at a minimal, they are consistent with IT security best practices with regards to complexity and length,
- Department and Divisional Directors ensure employees are adhering to established password polices and stress the importance of keeping passwords private,
- Perform a network vulnerability and a penetration assessment at least annually across all systems,
- Complete the development of a formalized disaster recovery plan that includes periodic checks to ensure data can be recovered successfully.

Government's Response:

IT completed a successful Disaster Recovery test during FY13 (April 16-18, 2013) and has scheduled the current fiscal year test for May 5-9, 2014 at our recovery facility. Development of the formalized Disaster Recovery Plan is concurrent with the testing. Of particular note: the Chief Administrative Officer signed and executed the "IT Disaster Recovery Policy" on June 27, 2013 which mandates the testing of mission-critical financial and human resources systems each year.

The PeopleSoft Financial and HR systems password policies and configuration are in full compliance with D.O.D. standards. However, we acknowledge the enterprise-wide Active Directory password control deficiency and will establish a plan to bring this into compliance.

IT employs outside Information Security and Audit firms to conduct yearly External and Internal Vulnerability Scans. For FY13 the scan took place in March, 2013 and the FY14 scan took place in March, 2014.

2013-03 Segregation of Duties – Change Management – PeopleSoft

Criteria:

Change management is a critical component to the Government's IT security. Limiting unauthorized changes and having proper segregation of duties in place is essential to reduce the risk of implementing IT changes into production environments which could contain untested errors, or malicious codes, which could negatively impact critical IT systems.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013
(Continued)

II. FINANCIAL STATEMENT FINDINGS, CONTINUED

2013-03 Segregation of Duties – Change Management – PeopleSoft, Continued

Condition:

Our assessment of the Government's internal control policies, and procedures of the Government's ERP system, PeopleSoft, revealed an inadequate segregation of duties related to change management. Specifically, there are three full-time developers and two other personnel with development responsibilities within DES; all of which have the ability to make changes and implement changes in production. In addition, we noted that a change management tracking and versioning application is not being used in order to provide an appropriate audit trail of system changes.

Cause:

The condition is caused by having a limited number of developers, lack of procedures to limit introducing code to production environments, and not having a system to track the change management process.

Effect or Potential Effect:

Fraudulent or malicious code could be introduced into PeopleSoft without being detected which could negatively impact the Government's IT systems.

Recommendation:

We recommend that the Government review its policies and procedures related to systems changes and customization of PeopleSoft, and ensure that the duties are adequately segregated. The responsibility for creation, approval, and application of changes should be assigned to different personnel to avoid undesired changes. At a minimal, the individual responsible for making changes should be separated from personnel implementing changes into production. Further, the Government should implement a change management tracking and versioning application capable of tracking changes beginning with the request all the way through implementing into production.

Government's Response:

With a limited staff IT does not have the staffing capabilities to have fully segregated DEV/TEST and QA/PROD teams. To compensate for this control issue the division closely monitors a "production access log" in accordance with the Segregation of Duties policy. The implementation of a version control (change management) system is underway.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2013-04 Census data was incorrectly calculated for the Community Oriented Policing Services Grant, resulting in ineligible amounts being claimed for reimbursement
CFDA Number: 16.710
Questioned Costs: \$21,060

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2013
(Continued)

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS, CONTINUED

2013-04 Census data was incorrectly calculated for the Community Oriented Policing Services Grant, resulting in ineligible amounts being claimed for reimbursement, continued

Criteria:

The COPS Hiring Program provides funding to State, local and tribal law enforcement agencies to hire new and/or rehire full-time career law enforcement officers to increase their community policing capacity and crime prevention efforts. The Government is entitled to claim approved entry-level salaries and fringe benefits of each newly hired and/or rehired full-time officer in excess of the baseline number of sworn officers as included in the Government's budget.

Condition:

The Government's process for identifying the number of entry-level officers in excess of the baseline number of sworn officers as included in the Government's budget was incorrectly calculated for two pay periods tested.

Cause:

The Government's process for identifying the number of entry-level officers in excess of the baseline number of sworn officers as included in the Government's budget is a manual process and it appears that human error resulted in the calculation incorrectly overstating the number of officers that could be claimed for two of the three payrolls tested.

Effect or Potential Effect:

The error in calculating the number of entry-level officers in excess of the baseline number of sworn officers as included in the Government's budget resulted in the Government requesting reimbursement of salaries and fringe benefits of \$21,060 in excess of that eligible for reimbursement.

Recommendation:

We recommend that the Government review the amounts claimed under the grant for all pay periods and return funds that were not eligible for reimbursement under the grant.

Government's Response:

The Government is in the process of reviewing the amounts claimed on the grant and ensuring that amounts incorrect claimed are corrected on future submittals.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2013

2012-01

Condition: Employees of the Government have access levels not necessitated by their respective role. Personnel have access to PeopleSoft that allow a breach of segregation of duties (for example, certain employees have access to prepare and authorize transactions). Periodic logical segregation of duty reviews are not being performed. Additionally, there are too many Domain Administrators for the Windows Active Directory domain.

Current Status: See finding 2013-01.

2012-02

Condition: During our review of the Government's IT systems and related controls, we identified the following:

- Password improvements are needed for access to the Government's network and access to PeopleSoft
- Passwords are not adequately secured by all Government employees and are at times shared with other employees
- The Government does not have a formal policy and procedure to perform network vulnerability and penetration assessments in order to appropriately identify weaknesses and areas for improvements in the Government's network environment
- Wireless access security to the Government's network is inadequate to prevent unauthorized access to the network
- The Government does not have a formal disaster recovery plan

Current Status: See finding 2013-02.

2012-03

Condition: Our assessment of the Government's internal control policies, and procedures of the Government's ERP system, PeopleSoft, revealed an inadequate segregation of duties related to change management. Specifically, there are three full-time developers and two other personnel with development responsibilities within the Division of Enterprise Solutions; all of which have the ability to make changes and implement changes in production. In addition, we noted that a change management tracking and versioning application is not being used in order to provide an appropriate audit trail of system changes.

Current Status: See finding 2013-03.

2012-04

Condition: The Government's internal control policies and procedures do not appropriately identify grants with Federal expenditures such that the Grants and Special Programs Division is timely involved in monitoring compliance with grant agreements and associated expenditures.

Current Status: The finding was corrected in the current year.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Summary Schedule of Program Review Performed by Other Organization (*unaudited*)
For the Year Ended June 30, 2013

We are aware of the following reviews of Lexington-Fayette Urban County Government (the Government) performed by other organizations during the period of this year's audit.

Organization: Bluegrass Workforce Investment Board (BGWIB)

Description:

In November 2013 the Government was informed by the BGWIB that they had completed their monitoring visit for the 2013 WIA grant incentive funds contracts 13-010Y and 14-006Y for the Path to Success program. As a result of that monitoring visit the BGWIB asserted that invoices claimed under the grant were ineligible due to being outside of the grant period.

The Government has investigated the invoices identified by the BGWIB and is confident that the associated costs were incurred during the grant period. The Government is currently negotiating with the BGWIB to resolve the issue.