

**LEXINGTON-FAYETTE URBAN
COUNTY GOVERNMENT**

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

**For The Year Ended
June 30, 2014**

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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, 2014, 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 17, 2014. 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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.

The Honorable Mayor, Members of the Urban County Council and Citizens
Lexington-Fayette Urban County Government
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters, continued

We did identify certain deficiencies in internal control, described in the accompanying *Schedule of Findings and Questioned Costs* as items 2014-01 and 2014-02 that we consider to be significant deficiencies.

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

Lexington, Kentucky
November 17, 2014

**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, 2014. The Government's major federal programs are identified in the summary of auditors' 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.

The Honorable Mayor, Members of the Urban County Council and Citizens
Lexington-Fayette Urban County Government
Report on Compliance for Each Major Program and Internal Control Over Compliance, continued

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, 2014.

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying *Schedule of Findings and Questioned Costs* as item 2014-03 that we consider to be a significant deficiency.

The Government's response to the internal control over compliance finding 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.

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.

The Honorable Mayor, Members of the Urban County Council and Citizens
Lexington-Fayette Urban County Government
Report on Compliance for Each Major Program and Internal Control Over Compliance, continued

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

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, 2014, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements. We issued our report thereon dated November 17, 2014, 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

Lexington, Kentucky

March 30, 2015, except for our report on the Schedule of Expenditures of Federal Awards
for which the date is November 17, 2014

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, 2014

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Federal Expenditures
US Department of Agriculture:			
Direct Programs:			
Child Care Food Program	10.558	11475	16,911
Child Care Food Program	10.558	11475	49,112
Purchase of Development Rights (PDR)	10.913	68-5C16-11-128	1,087,071
Total US Department of Agriculture			<u>1,153,094</u>
US Department of Housing and Urban Development:			
Direct Programs:			
Community Dev Block Grant	14.218	B11MC210004	367,571
Community Dev Block Grant	14.218	B12MC210004	1,641,550
Emergency Solutions	14.231	E11MC210003	25,149
Emergency Solutions	14.231	E12MC210003	144,701
Emergency Solutions	14.231	E13MC210003	86,829
HOME	14.239	M10MC210201	845,840
HOME	14.239	M11MC210201	188,228
Housing Opp for Pers with AIDS (HOPWA)	14.241	KY-H11-0012	469,854
Total US Department of Housing and Urban Development			<u>3,769,722</u>
US Department of Interior:			
Passed through Commonwealth of Kentucky:			
Hisle Farm Park	15.611	PON2 660 13000024351	49,962
US Department of Justice:			
Direct Programs:			
Police Confiscated Funds	16.000	NA	435,453
Safe Havens	16.527	2010-CW-AX-K013	118,142
Safe Havens	16.527	2013-FL-AX-K011	2,123
Arrest Policy	16.590	2011-WE-AX-0011	95,347
SCAAP	16.606	2011-AP-BX-0370	9,747
SCAAP	16.606	2012-AP-BX-0690	2,837
Project Safe Neighborhoods	16.609	2011-GP-BX-0027	49,044
Cops Hire	16.710	2011ULWX0015	218,408
National PAL Mentoring Program	16.726	2013-JU-FX-0024	3,835
Lex-Fayette Co Detention Center (PREA)	16.735	2010-RP-BX-K001	23,329
Justice Assistance Grant	16.738	2010-DJ-BX-1245	33,428
Justice Assistance Grant	16.738	2011-DJ-BX-3120	92,052
Justice Assistance Grant	16.738	2012-DJ-BX-0432	133,885
Justice Assistance Grant	16.738	2013-DJ-BX-0325	203,920
Passed through Commonwealth of Kentucky:			
Juv Accountability Block Grant	16.523	JABG-2013-LFUCG St-00007	2,513
Juv Accountability Block Grant	16.523	JABG-2014-LFUCG St-00006	13,400
Sexual Assault Nurse Examiner (SANE)	16.588	VAWA-2012-LFUCG-ST-00296	18,671
Sexual Assault Nurse Examiner (SANE)	16.588	VAWA-2013-LFUCG-ST-00334	12,753
Street Sales (Confiscated Funds)	16.738	2012-JAG-LFUCG STRE-00919	19,623
Street Sales	16.738	2013-JAG-LFUCG-STRE-00946	49,385
Total US Department of Justice			<u>1,537,895</u>
US Department of Labor:			
Passed through Commonwealth of Kentucky:			
WIA	17.259	13-010Y	10,214
WIA	17.259	14-006Y	62,834
Total US Department of Labor			<u>73,048</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014
(Continued)

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Federal Expenditures
US Department of Transportation:			
Passed through Commonwealth of Kentucky:			
Air Quality Planning	20.205	1300006289	43,242
Alexander Drive/Stone	20.205	P02-628-0800020946	30,403
Bicycle and Pedestrian Planning	20.205	1300006289	37,531
Brighton East	20.205	1000001796	234,354
Clays Mill Road	20.205	C-03328686	2,488,004
Congestion Management	20.205	1300006289	49,772
Distracted Driving	20.205	PO2-625-14000015611	14,662
Distracted Driving-Supplemental	20.205	PO2-625-14000051191	29,984
Federal Highway Planning	20.205	1300004307	350,400
Fiber Optic Cable Installation	20.205	P02-628-1300002569	20,800
Gainesway Trail CMAQ Project	20.205	PO2-628-0700013794	16,497
Grimes Mill Bridge	20.205	C-05354512	699,806
Intelligent Transpor. System (ITS)	20.205	PO2-625-1300000653	451,828
Intelligent Transpor. System (ITS)	20.205	PO2-625-1400003771	2,236
Legacy Trail Enhancements	20.205	PO2-625-1200003879	5,052
Lexington Traffic	20.205	P02-625-1200001306	88,889
Liberty Road/Todds Road	20.205	C-04073306	24,927
Loudon Avenue Sidewalk Project	20.205	PO2-628-1100001626	602
Newtown Pike	20.205	C-00343167	35,336
Newtown Pike Supplement #1	20.205	C-00343167	91,156
Newtown Pike Supplement #2	20.205	C-00343167	1,428,227
Old Frankfort Pike Corridor	20.205	PO2-628-1200001790	14,560
Polo Club Boulevard Project	20.205	PO2-625-1300001036	143,339
Rose Street Bike Lanes	20.205	C-01099430	12,127
Share The Road	20.205	PO2-628-0900022380	8,400
Southland	20.205	P02-628-1100001374	20,701
Tates Creek Sidewalks	20.205	PO2-628-1300001250	1,334,187
Town Branch	20.205	P02-628-1200004353	1,826
Mobility Office	20.205	MA-1300006289	101,716
MCSAP	20.218	No Number	42,603
MCSAP	20.218	No Number	42,827
Tact	20.218	No Number	4,688
Cool Trail	20.219	1000003084	23,374
Fed Transit Admin Section 5303	20.505	KY-80-0004-00	45,266
Traffic Safety	20.600	AL-13-16	7,439
Traffic Safety	20.601	DUIK8-14-04	99,500
Traffic Safety Speed Program	20.600	PT-14-28	24,864
Traffic Safety Click It or Ticket Enforcement	20.602	K2-14-19	4,128
Total US Department of Transportation			<u>8,075,253</u>
US Environmental Protection Agency:			
Direct Programs:			
Brownfield Assessment Project	66.818	BF-95461610-0	247,691
Passed through Commonwealth of Kentucky:			
Wolf Run	66.460	C9994861-09	69
Wolf Run	66.460	PON2 129 1400000015	187
Wolf Run	66.458	A10-08 SWR	8,355,763
Century Hills	66.458	A13-003 SWR	613,201
East Lake	66.458	A13-003 SWR	642,586
Anniston Wickland PH3	66.458	A13-007 WQ	629,060
Idle Hour	66.458	A13-007 WQ	417,280
E2A	66.458	A13-18 SWR	3,911,376
Bob-O-Link	66.458	A13-002 SWR	1,265,569
Total US Environmental Protection Agency			<u>16,082,782</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2014

(Continued)

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Direct/ Pass-through Grantor's Number	Federal Expenditures
US Department of Health and Human Services:			
Passed through Commonwealth of Kentucky:			
Senior Citizens	93.044	AS-2013-2014-2015	122,682
Home Network	93.597	2011-2012-PUBLIC-R	162,089
Home Network	93.597	2012-1013-PUBLIC-R	148,015
Total US Department of Health and Human Services			<u>432,786</u>
US Department of Homeland Security Office of Domestic Preparedness:			
Direct Programs:			
Fire Prevention	97.044	EMW-2012-FP-00294	18,116
Passed through Commonwealth of Kentucky:			
Hazard Mitigation Grant Prog.(HMGP_Plan)	97.039	PON209511000015692	
Chemical Stockpile Emergency (CSEPP)	97.040	PON209510000009494	1,715
Chemical Stockpile Emergency (CSEPP)	97.040	PON209511000014052	138,835
Chemical Stockpile Emergency (CSEPP)	97.040	PON209512000005372	173,139
Chemical Stockpile Emergency (CSEPP)	97.040	PO209513000036521	329,711
Chemical Stockpile Emergency (CSEPP)	97.040	PO209514000033041	116,376
Emergency Management Assistance	97.042	PON209513000006711	14,099
Emergency Management Assistance	97.042	PON209514000003351	18,879
State Homeland Dive	97.067	PO2 094 1400002977 1	11,610
State Homeland Police	97.067	PO2 094 1300003027 1	55,000
State Homeland Police	97.067	PO2 094 1400003000 1	15,761
State Homeland Training	97.067	PO2 094 1300003012 1	53,000
State Homeland Fire	97.067	PO2 094 1400003390 1	48,000
Metro Medical Response System (MMRS)	97.067	PO2 094 1200003498 4	91,689
Staffing for Adequate Fire & Emerg Response	97.083	EMW-2011-FH-00445	1,459,241
Total US Dept. of Homeland Security Office of Domestic Preparedness			<u>2,545,171</u>
US Election Assistance Commission			
Passed through Commonwealth of Kentucky:			
Help America Vote	90.401	N/A	53,800
Total Federal Financial Assistance			<u>33,773,513</u>

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

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	\$ 512,024
14.231	Emergency Solutions	143,314
14.239	HOME	853,374
14.241	Housing Opportunity for Persons with AIDS	459,188
16.527	Safe Haven	112,649
16.590	Arrest Policy	26,912
16.609	Project Safe Neighborhoods	24,081
16.738	Street Sales	59,100

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

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>
10.913	Purchase of Development Rights (PDR)
14.231	Emergency Solutions Grant Program
14.239	Home Investment Partnerships Program (HOME Program)
66.458	Capitalization Grants for Clean Water State Revolving Funds
97.040	Chemical Stockpile Emergency Preparedness Program

Dollar threshold used to distinguish between Type A and Type B programs: \$538,160

Auditee qualified as a low-risk auditee? Yes No

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014
(Continued)

II. FINANCIAL STATEMENT FINDINGS

2014-01 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.

Additionally, 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. Access to PeopleSoft should be restricted to ensure personnel have access only to those applications and transaction types necessary for their position.

Condition:

During our review of the Government's IT systems and related controls, we noted that the Government continues to work on improvements to the security of its system, the following areas could still be strengthened:

- Password requirements for access to the Government's network, PeopleSoft and Active Directory, such as complexity rules, maximum password age, minimum password length, etc.
- Timely updating of Active Directory user accounts to disable access no longer required.
- Ensuring employees of the Government have only those access levels necessitated by their respective role and do not have access to PeopleSoft that would allow a breach of segregation of duties (for example, certain employees have access to prepare and authorize transactions).
- Periodic logical segregation of duty reviews (which are not currently being performed across all platforms and systems).

Cause:

The conditions are caused by:

- Not having adequate password policies in place,
- Not instituting a policy to regularly review user accounts to ensure that:
 - Access is appropriate for the employee's role;
 - Access does not breach logical segregation of duties; and
 - Access no longer required is disabled across all platforms and systems.

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.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014
(Continued)

II. FINANCIAL STATEMENT FINDINGS, CONTINUED

2014-01 Informational Technology Systems – Safeguard and Security, continued

Recommendation:

While the Government continues to make improvements in this area, we recommend that the Government continue to review its current IT policies and procedures and ensure the following:

- Password policies are strengthened so that, at a minimum, they are consistent with IT security best practices,
- Department and Divisional Directors ensure employees are adhering to established password policies and stress the importance of properly maintaining passwords,
- Perform user access reviews on at least an annual basis to determine that user access is appropriate, logical segregation of duties is maintained, and user access is timely updated for terminations and changes in roles.

Government's Response:

Formalized IT policy development is regular and ongoing. Additionally, user access reviews continue on a quarterly basis. 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 are currently remediating. In November of 2014, Information Technology kicked off an Active Directory (AD) upgrade project that will move the Government into compliance.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014
(Continued)

II. FINANCIAL STATEMENT FINDINGS, CONTINUED

2014-02 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.

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 where possible. The responsibility for creation, approval, and application of changes should be assigned to different personnel to avoid undesired changes. At a minimum, 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 limited personnel, IT does not have the staffing capabilities to have fully segregated DEV/TEST and QA/PROD teams. To compensate for this control issue IT Management closely monitors a "production access log" in accordance with the Segregation of Duties policy as established in September of 2013. Quarterly "user rights audits" have been standard practice for the past two years.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014
(Continued)

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

2014-03 Timeliness of Performance of, and Document Retention for, Program Requirements

CFDA Number and Title:	Various
Federal Award Number and Year:	Various
Name of Federal Agency:	Various
Questioned Costs:	None

Criteria:

Ensuring that reports are submitted and drawdowns of funds are processed on a timely basis is essential to ensure that the Government remains in compliance with Federal grants. Additionally, proper maintenance of documents that support the drawdowns of funds and the reports, as well as maintenance of documents such as monitoring reports is required under Federal guidelines.

Condition:

We identified the following matters during our testing:

- Evidence of review and approval of periodic reports was not documented on one SF-425A tested.
- A transparency report on one grant had not been submitted timely.
- Documentation with regards to monitoring of one sub-recipient and inspection of one project was not properly maintained.
- Funds for one grant tested had not been completely drawdown within the period of availability.
- Sub-recipient contracts on one grant had not been timely updated upon expiration of the grants.
- Maintenance and replacement reserves for one grant had not been established for one grant.

Cause:

It appears that the government does not have a central database and repository for all grant documentation that also includes all of the requirements and their respective deadlines for each of the grants. This results in the potential for human error to occur with regards to missing deadlines or failing to properly file all required documents, without detection and correction of the error.

Effect or Potential Effect:

The Government could omit to maintain required documentation or to submit reports timely such that the Government could be required to repay grant monies, or could lose grant funding through the period of availability ending before the Government draws down all of the available funds.

Recommendation:

We recommend that the Government review policies and procedures, and consider acquisition/development of grant database software. This software should then be used as a single repository for all grant related documentation. The software should also contain key requirements and deadlines within the grants. Periodically, the Government's grant personnel should review the contents of the database to ensure that data is properly and timely updated, and that all required documentation is being maintained within the system.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014
(Continued)

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS, CONTINUED

2014-03 Timeliness of Performance of, and Document Retention for, Program Requirements

Government's Response:

The Division of Accounting will implement procedures to review and approve periodic reports as required by each grant. The Division of Grants and Special Projects will implement procedures that ensure all future submissions of reports are timely per the terms of the grant.

It is the Government's standard practice when monitoring sub-recipients to provide full documentation in one file and reference it in any other files necessary. The Government concurs that there was a missed inspection. The timely inspection of projects is a priority for the Government and a procedure has been established in the Division of Grants and Special Projects to ensure that inspections are made per the terms of the respective grants.

It is the Division of Grants and Special Project's standard practice to ensure that all program funds are expended in a timely manner. The Government was in compliance with grant funding requirements using the approved first-in-first-out rule. The grantors' report shows that program disbursements are timely based upon the current rule. It should be noted that during the next year grantors may be changing the first-in-first-out cumulative approach to a grant-specific accounting system that will ensure that both commitments and disbursements of grant funds will be done on a grant-specific basis.

While sub-recipient agreements are usually extended through a written amendment, sub-recipients who are in compliance may be allowed to complete work in progress as long as they are in compliance with the regulations. The Division of Grants and Special Projects will review sub-recipient awards on a regular basis to ensure that extensions are executed.

The Division of Accounting has implemented procedures to review each grant contract in order to meet all of the requirements, including those related to maintenance and replacement reserves.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2014

2013-01 Segregation of Duties – Access to PeopleSoft

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 2014-01.

2013-02 Information technology Systems – Safeguard and Security

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

Current Status: See finding 2014-01.

2013-03 Segregation of Duties – Change Management - PeopleSoft

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.

Current Status: See finding 2014-02.

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT
Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2014
(Continued)

2013-04 Census Data Incorrectly Calculated for Community Oriented Policing Services

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.

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