



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

MANAGEMENT ACTION PLAN PROGRESS REPORT

DATE: May 16, 2014

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Derek Paulsen, Commissioner of Planning, Preservation, & Development
William O'Mara, Commissioner of Finance & Administration
Brad Frazier, Director of Engineering
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Alicia Boyd, CPA, Internal Auditor

RE: MAP & CAP Funds Audit Management Action Plan Progress

EXECUTIVE SUMMARY

On May 11, 2012 the Office of Internal Audit issued the MAP & CAP Funds Audit Report. The 2012 audit report contained two findings addressing incorrect revenue coding and the proper charging of administrative expenditures. This follow-up review was conducted to evaluate controls put in place by management to address those specific findings from the May 2012 report.

This review is provided for management information only. It is not an audit and no opinion is given regarding controls or procedures. We analyzed revenue and sampled expenditures for the MAP Fund (1136) for fiscal years 2013 and 2014 through April 10, 2014 and April 3,

2014, respectively, when necessary to complete our follow-up procedures. A summary of each finding from the original May 2012 audit report, and a summary of the results of our follow-up, is provided in the table below. The original findings, management's original responses, and details of the results of this follow-up are contained in the ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS section of this report.

Finding #	Summary of Original Finding	Follow-up Results
Finding #1 High Priority	Ground Lease Easement Revenue Coded to MAP Fund instead of General Services Fund.	While a correcting journal entry was not made to post the remaining \$29,000 in an appropriate fund/account, no additional ground lease easement revenue was reported in MAP Fund for FYE 13 or FYE 14 through April 10, 2014. Division continues to work with Budgeting and Accounting to resolve the issue.
Finding #2 Moderate Priority	Eight Administrative Expenditures Fully Charged to MAP Fund when part of the expenditures could have been charged to other funds.	While only a small portion of expenditures from the MAP fund are the types of administrative expenditures (memberships and training) noted in the audit, the MAP fund continues to bear the full cost. Division has attempted, through the FYE 2015 budget submitted by the Mayor, to allocate these expenditures more evenly among all their budgeted funds.

ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS

Finding #1: Revenue Coded to Incorrect Fund

Priority Rating: High

Condition:

An examination of expenditures from MAP Fund identified the payment of a \$9,000 invoice for the production of a documentary video concerning Town Branch Trail. This is not an allowable MAP Fund expenditure under KRS 177. Further review and inquiry determined that this expenditure occurred to offset the incorrect posting of ground lease easement revenue to the MAP Fund. The easement revenue should have been posted to the General Fund.

Effect:

Posting inappropriate expenditures is not the proper way to correct such errors, and can also bring into question LFUCG's compliance with KRS requirements regarding the MAP Fund.

Recommendation:

Only revenue received from the Kentucky Transportation Cabinet designated as Municipal Aid Program funds should be posted in the MAP Fund. The Division of Engineering should coordinate with the Division of Accounting to post a correcting entry transferring the remaining ground lease easement revenue to the General Fund.

Director of Engineering Original Response:

The ground lease easement revenue was posted in the MAP Fund to attempt to earmark it for expenditure on the Town Branch Trail project. A better course of action would have been to deposit the revenue in a special account for the Trail. Engineering will coordinate with the Division of Accounting to post the remaining money in an appropriate fund/account.

Chief Administrative Officer Response:

I concur with the plan to post the remaining money to an appropriate fund/account and will expect the Director to closely monitor future transactions.

Follow-up Detail Results:

While a correcting journal entry has not been made to transfer the remaining \$29,000 of Town Branch Trail ground lease easement revenue to an appropriate fund such as the General Fund, no additional ground lease easement revenue was reported in the MAP Fund for FYE 2013 or FYE 2014 through April 3, 2014. The

Division of Engineering continues to work with the Divisions of Budgeting and Accounting to resolve the previous issue.

Director of Engineering Response:

We have been attempting to move the money collected from AT&T for Town Branch Trail easement into an appropriate account as recommended by the audit. Of the \$38,000 deposited, \$29,000 still remains in the MAP fund. We aren't able to move the money from the MAP fund and put into a General Fund account that will allow us to earmark the money for the Town Branch Project. What we propose is to create a Budget Amendment requesting the \$29,000 from MAP fund balance for the Town Branch Trail project. These funds would be for the repair or maintenance of existing portions of the trail, or would be applied to grant match of future phase(s) of the Town Branch trail. MAP funds can be used for this type of project.

Commissioner of Planning, Preservation, & Development Response:

I concur with the plan to request the funds for the balance of the Town Branch trail project from MAP.

Finding #2: Administrative Expenditures Fully Charged to MAP Fund

Priority Rating: Moderate

Condition:

We identified eight expenditures that were administrative in nature and could be applied to other funds in addition to the MAP Fund. However, these expenditures were charged in full to the MAP Fund. See Exhibit One for details.

Exhibit One

Date	Vendor	Invoice #	Check #	Amount
7/13/2010	PNC Bank	845878_20	72010	\$62.00
9/14/2010	IRWA Ky Chapter 25	Wray&Bennett	105453	\$40.00
9/20/2010	IRWA	192343	107528	\$210.00
9/20/2010	IRWA	189392	111826	\$205.00
3/23/2010	University of Kentucky	Parsons, Hilliard	119134	\$50.00
3/09/2010	IRWA	Jim Wray	120351	\$20.00
8/04/2011	IRWA	James Wray	130281	\$20.00
1/27/2012	PNC Bank	1005359_3	12012	\$25.00

Effect:

By not properly allocating administrative expenditures to other applicable funds, the MAP Fund incurs higher administrative costs resulting in fewer available funds for actual road related work. This can also bring into question LFUCG's compliance with KRS requirements regarding the MAP Fund.

Recommendation:

Management should allocate such administrative expenditures against all appropriate funds.

Division of Engineering Original Response:

I concur with the finding of the audit report. Future administrative expenditures will be charged equitably against appropriate funds.

Chief Administrative Officer Response:

I concur and will expect the Director to monitor future transactions to assure that administrative expenditures are appropriately charged to the applicable funds.

Follow-up Detail Results:

While only a small portion of expenditures from the MAP fund are the types of administrative (memberships and training) expenditures noted in the audit, the MAP fund continues to bear the full cost. The Division of Engineering has attempted, through the FYE 2015 budget submitted by the Mayor, to allocate these expenditures more evenly among all their budgeted funds.

Director of Engineering Response:

The Division of Engineering's budget is compiled from 6 different funds; one of the funds is solely for personnel, one is county aid and another is the ROW Enterprise Fund. The other three funds (MAP, General, and Sanitary Sewer) are funds we have available for administrative expenditures. In previous years, we have tagged each of these funds for various expenditures. Although we weren't "splitting" the expenditures with "each" purchase, we did rotation using the different funds. As of the past several months, we have begun to split "each" expenditure between funds as permitted. With FY'15 budget we have split expenditures between the funds (i.e. cell phones, office supplies, rent/lease, equipment under \$5,000, etc.).

Commissioner of Planning, Preservation, & Development Response:

I concur with the plan to continue to split the expenditures between the different funds.