



Jerry E. Abramson
Mayor

Louisville Metro Council

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Office of Internal Audit

Economic Development

4th Street Forgivable Loan –
Expenditure Documentation

Report

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August 2009



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OFFICE OF INTERNAL AUDIT
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Transmittal Letter

August 14, 2009

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Metro Hall
Louisville, KY 40202

Subject: Review of 4th Street Forgivable Loan Expenditure Documentation

Objective

As requested, expenditure documentation related to the use of the \$950,000 forgivable loan to LG Financial Incorporated was reviewed. The objective was to obtain assurance that there was expenditure documentation that substantiated the loan proceeds were used in compliance with the January 9, 2009 Consent to Assignment and Amended and Restated Loan Agreement.

According to this Agreement, “the loan proceeds shall be used to provide Tenant Assistance to attract new retail, restaurant, office and entertainment tenants.” Tenant Assistance includes the cost of tenant improvements and other fit out work, including reconstruction and reconfiguration of space as well as tenant allowances. An evaluation of the internal control structure was not performed, nor was determining the appropriateness of the loan.

Scope

An understanding of the purpose of the loan was obtained via interviews of key Louisville Metro Economic Development personnel and reviews of applicable loan documentation. The review was performed by examining expenditure documentation provided by LG Financial Incorporated personnel. This included vendor invoices and receipts, check images, bank statements, credit card statements, and applicable lien releases. A total of 285 invoices / receipts were reviewed.

The review was performed on August 7, 2009 at LG Financial Incorporated's principal office in Baltimore, Maryland. The following were present.

Office of Internal Audit	Economic Development	Metro Council	LG Financial Inc
Michael Norman	Bruce Traugher	David Tandy	Blake Cordish
	David Morris		
	Ellie Shipley		

The review was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Scope Limitation

The review relied on LG Financial Incorporated personnel's assertion that the documentation provided was related to the \$950,000 forgivable loan. The Office of Internal Audit did not independently identify the documentation for review, and therefore does not offer assurance as to the completeness, accuracy, or reliability of the documentation reviewed. Instead, only limited assurance that the documentation substantiates the use of the loan proceeds could be obtained.

Verification that the activity related to The Sports & Social Club at 427 South Fourth Street was limited to the documentation provided. The Office of Internal Audit did not perform physical verifications at The Sports & Social Club site, nor contact any of the vendors identified in the documentation. In addition, some types of goods are not easily identifiable even if physical verifications are performed. This limits the ability to obtain assurance that the activity was for The Sports & Social Club.

Confidentiality Agreement

The Consent to Assignment and Amended and Restated Loan Agreement does not contain a "right to audit" clause. Therefore, Louisville Metro requested that expenditure documentation related to the loan proceeds be made available for review. LG Financial Incorporated was not obligated to make the documentation available, but did so under the condition that Louisville Metro representatives enter into a confidentiality agreement.

The confidentiality agreement provided assurance that proprietary information would not be disclosed by Louisville Metro representatives. The agreement covered the review of expenditure documentation and disclosure of results. It is important to note that entering the confidentiality agreement did not create a scope limitation for the review of the expenditure documentation. However, it did limit the extent of details included in

the reporting of the results. The Results section of this letter reflect the agreed to extent of disclosure.

Results

The expenditure documentation reviewed appeared to substantiate that the \$950,000 loan proceeds were used in compliance with the January 9, 2009 Consent to Assignment and Amended and Restated Loan Agreement. The documentation appeared to indicate the entire \$950,000 was used to fund Tenant Assistance which includes the cost of tenant improvements and other fit out work, including reconstruction and reconfiguration of space as well as tenant allowances related to The Sports & Social Club at 427 South Fourth Street.

Please contact me if I can be of further assistance or if you have any questions.

Sincerely,



Michael S. Norman, CIA, CFE, CGAP
Chief Audit Executive

cc: Deputy Mayor
Director of Economic Development
Louisville Metro Council President
Louisville Metro Council Government Accountability and Oversight Committee
Louisville Metro External Auditors

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