

EXECUTIVE SUMMARY
SINGLE AUDIT REPORT UNDER CIRCULAR A-133
LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT

For The Fiscal Year Ended
June 30, 2004

Background

The Single Audit Act of 1984, subsequent amendments, and corresponding regulations, require the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Louisville Metro government.

The Single Audit Report is presented in two volumes: The Comprehensive Annual Financial Report (CAFR) and this A-133 report. The CAFR contains basic financial statements and has been issued under separate cover by the Louisville Metro government.

EXPENDITURES: Metro organizations expended federal awards as follows:

- \$56,406,114 in cash from 14 federal grantors

SUMMARY OF AUDITOR'S RESULTS:

Financial Statements

We have issued an unqualified opinion on the CAFR. However, we noted eleven (11) financial statement findings, none of which are material weaknesses.

General Topics Of Reportable Conditions:

- Cash management activities and investment pool participation.
- Adequate supporting documentation, proper authorizations, and records retention policies.
- Policies and procedures over accounting for capital assets.
- Closing procedures, and compilation of the CAFR and SEFA.
- Reconciliation of payroll system and related payroll accounts.
- Internal controls and compliance over major federal programs.

Federal Awards and Schedule of Expenditures of Federal Awards

We have issued a qualified opinion on Metro's CDBG program for non-compliance with program requirements relating to subrecipient monitoring, financial reporting, and program income. In addition, we have issued an unqualified opinion on the Schedule of Expenditures of Federal Awards. We noted eight (8) federal award findings, three (3) of which are material weaknesses.

Descriptions Of Material Weaknesses:

- Metro Department of Housing Should Implement Subrecipient Monitoring Procedures for the CDBG and HOME Programs.
- Metro Department of Housing Should Prepare Federal Cash Transaction Reports As Required for the CDBG Program.
- Metro Department of Housing Should Implement Policies and Procedures to Improve Cash Management and Properly Account For and Monitor Program Income.



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

April 15, 2005

Jerry E. Abramson, Mayor
Louisville/Jefferson County Metro Council

As Auditor of Public Accounts, I am pleased to transmit herewith our report of the Single Audit of the Louisville/Jefferson County Metro Government for the year ended June 30, 2004. The Federal Government's Office of Management and Budget (OMB), per OMB Circular A-133 requires the Auditor of Public Accounts to perform the Single Audit of the Louisville/Jefferson County Metro Government.

To fulfill these requirements, the Auditor of Public Accounts performs the following:

- An audit of the basic financial statements and combining and individual fund statements and schedules-nonmajor funds;
- Limited procedures applied to required supplementary information;
- An audit of the Schedule of Expenditures of Federal Awards;
- An audit of compliance with the compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each major federal program;
- Tests of internal control over compliance in accordance with OMB Circular A-133;
- Tests of compliance with certain provisions of laws, regulations, contracts, and grants; and
- Tests of internal control over financial reporting.

The Auditor of Public Accounts also calculates a dollar threshold, based on OMB Circular A-133 guidance, to determine the federal programs to be audited for internal controls and compliance. For FY 04, the threshold for auditing federal programs was \$1,690,064.

On behalf of the Division of Financial Audit of the Auditor of Public Accounts' Office, I wish to thank the employees of the Metro Government for their cooperation during the course of our audit. Should you have any questions concerning this report, please contact John Cubine, Director, Division of Financial Audit, or me.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts



**REPORT OF THE SINGLE AUDIT
OF THE
LOUISVILLE/JEFFERSON COUNTY
METRO GOVERNMENT**

**For the Year Ended
June 30, 2004**



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CONTENTS

INTRODUCTION

Single Audit Report5
Schedule of Expenditures of Federal Awards5
Schedule of Findings and Questioned Costs5
Summary Schedule of Prior Audit Findings6
Audit Approach6
List Of Abbreviations/Acronyms Used In This Report.....7

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Schedule of Expenditures of Federal Awards:

U.S. Department of Agriculture 10
U.S. Department of Commerce 10
U.S. Department of Defense..... 10
U.S. Department of Housing and Urban Development 10
U.S. Department of the Interior 11
U.S. Department of Justice 11
U.S. Department of Labor 12
U.S. Department of Transportation 13
U.S. Institute of Museum and Library Services 13
U.S. Environmental Protection Agency 13
U.S. Department of Energy 14
U.S. Department of Health and Human Services 14
U.S. Corporation for National and Community Service 16
U.S. Department of Homeland Security 16

Notes To The Schedule Of Expenditures Of Federal Awards..... 17

REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*23

Report on Compliance With Requirements Applicable to Each Major Program
and on Internal Control Over Compliance in Accordance With OMB Circular
A-133 and on the Schedule of Expenditures of Federal Awards 25

CONTENTS

(Continued)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1 - Summary of Auditor's Results 29

Section 2 - Financial Statement Findings

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance:

FINDING 04-Metro-1: Metro Should Develop A Policy To Properly Account For Its Internal Investment Pool..... 31

FINDING 04-Metro-2: Metro Should Improve Internal Controls Over Cash Management Activities..... 33

FINDING 04-Metro-3: Metro Should Properly Segregate Investment Duties And Should Require Proper Support Before Approving And Posting Investment Activity 36

FINDING 04-Metro-4: Metro Should Improve Internal Controls Related To Capital Assets 38

FINDING 04-Metro-5: Metro Finance Should Improve Its Year-End Closing Procedures And Its Process For Compiling The Financial Statements 41

FINDING 04-Metro-6: Adequate Payroll Records Should Be Maintained 45

FINDING 04-Metro-7: Metro Should Reconcile Payroll Information To The General Ledger 48

FINDING 04-Metro-8: Metro Should Improve Record Retention Policies For Payroll 51

FINDING 04-Metro-9: Metro Should Implement Controls To Improve Planning And Implementation Of New Accounting Requirements 53

FINDING 04-Metro-10: Metro Should Maintain Proper Supporting Documentation And Improve Procedures For Authorizations Of Financial Transactions..... 55

FINDING 04-Metro-11: Metro Should Improve Policies And Procedures Related To The SEFA Compilation..... 57

CONTENTS

(Continued)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

Section 3 - Federal Award Findings and Questioned Costs

Material Weaknesses and/or Material Instances of Noncompliance:

FINDING 04-Metro-12: Metro Department Of Housing Should Implement Subrecipient Monitoring Procedures For The CDBG And HOME Programs 60

FINDING 04-Metro-13: Metro Department of Housing Should Prepare Federal Cash Transaction Reports As Required For The CDBG Program 63

FINDING 04-Metro-14: Metro Department Of Housing Should Implement Policies And Procedures To Improve Cash Management And Properly Account For And Monitor Program Income 65

Reportable Conditions Relating to Internal Controls and/or Reportable Instances of Noncompliance:

FINDING 04-Metro-15: Metro Should Develop And Implement An Indirect Cost Allocation Plan Prior To Charging Indirect Costs To Any Federal Program 68

FINDING 04-Metro-16: Metro Department Of Housing Should Improve Procedures And Strengthen Internal Controls Over Cash Management Related To The HOME Program..... 70

FINDING 04-Metro-17: Metro Department Of Housing Should Improve Internal Controls Over Program Income For The HOME Program..... 72

FINDING 04-Metro-18: Metro Department Of Public Works Should Improve Procedures For Coding Federal Activity In The Financial Accounting System 74

FINDING 04-Metro-19: Metro Waterfront Development Corporation Should Improve Procedures For Coding Federal Activity In The Financial Accounting System 76

Section 4 - Auditor's Reply 78

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS 80

INTRODUCTION

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2004**

Single Audit Report

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, performed the single audit of the Louisville/Jefferson County Metro Government (Metro) for the year ended June 30, 2004.

The APA prepares the Single Audit Report in compliance with Government Auditing Standards, Generally Accepted Government Auditing Standards, and the requirements of Office of Management and Budget (OMB) Circular A-133. The APA, on behalf of Metro, also prepares a reporting package as required by OMB Circular A-133. The reporting package includes the basic financial statements, Schedule of Expenditures of Federal Awards (SEFA), auditor's reports, Summary Schedule of Prior Audit Findings, and corrective action plans. For the fiscal year ended June 30, 2004 (FY 04), the Single Audit Report is presented in two reports: the Comprehensive Annual Financial Report (CAFR) and the Single Audit Report.

The CAFR, which contains the basic financial statements and the auditor's report thereon, has been issued under separate cover.

The Single Audit Report contains the auditor's reports on compliance and internal control over financial reporting, compliance and internal control over compliance with requirements applicable to major federal programs, and the supplementary SEFA. The Single Audit Report also contains the SEFA, Schedule of Findings and Questioned Costs, and the Summary Schedule of Prior Audit Findings.

Schedule of Expenditures of Federal Awards

The SEFA is organized by federal grantor. The Catalog of Federal Domestic Assistance (CFDA) numbers and program names are listed under the federal grantor administering the program. The notes to the SEFA provide more detailed information on certain aspects of the expenditures. Clusters of programs are indicated in the schedule by light gray shading.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three (3) sections: Summary of Auditor's Results, Financial Statement Findings, and Federal Award Findings and Questioned Costs. The Summary of Auditor's Results summarizes the type of audit reports issued and lists major programs audited. The Financial Statement Findings list the audit findings related to the financial statements. The Federal Award Findings and Questioned Costs lists all findings related to federal awards. In both sections, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliance.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)**

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for FY 03, as well as any previous findings that have not been resolved, are reported in the Summary Schedule of Prior Audit Findings for FY 04.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable or material. The findings of each classification (reportable and material) are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

Audit Approach

The scope of the single audit for FY 04 included:

- An audit of the basic financial statements, and combining and individual fund statements and schedules for nonmajor funds;
- Limited procedures applied to required supplementary information;
- An audit of the SEFA;
- An audit of compliance with the compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each major federal program;
- Tests of internal control over compliance in accordance with OMB Circular A-133; and
- Tests of compliance with certain provisions of laws, regulations, contracts, and grants.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report

| | |
|-------|--|
| AIDS | Acquired Immunodeficiency Syndrome |
| ADP | Automatic Data Processing |
| AOC | Kentucky Administrative Office of the Courts |
| APA | Auditor of Public Accounts |
| CAFR | Comprehensive Annual Financial Report |
| CAP | Cost Allocation Plan |
| CDBG | Community Development Block Grant |
| CEPP | Chemical Emergency Preparedness and Prevention |
| CFDA | Catalog of Federal Domestic Assistance |
| CFC | Kentucky Cabinet for Families and Children |
| CFO | Chief Financial Officer |
| CFR | Code of Federal Regulations |
| CHDO | Community Housing Development Organization |
| CHS | Kentucky Cabinet for Health Services |
| CLEPP | Childhood Lead Poisoning Prevention Program |
| DOJ | U.S. Department of Justice |
| EDP | Electronic Data Processing |
| FY | Fiscal Year |
| FYE | Fiscal Year Ending |
| GAAP | Generally Accepted Accounting Principles |
| GASB | Governmental Accounting Standards Board |
| HHS | U.S. Department of Health and Human Services |
| HIV | Human Immunodeficiency Virus |
| HOME | HOME Investment Partnership Program |
| HUD | U.S. Department of Housing and Urban Development |
| IDIS | Integrated Disbursement and Information System |
| JV | Journal Voucher |
| KACA | Kentucky Association for Community Action |
| KD&A | Knowledge, Development, and Application |
| KIPDA | Kentuckiana Regional Planning Development Agency |
| KY | Kentucky |
| KHC | Kentucky Housing Corporation |
| KTC | Kentucky Transportation Cabinet |
| LeAP | Louisville e-Financial Application Program |
| Metro | Louisville/Jefferson County Metro Government |
| NA | Not Applicable |
| OMB | Office of Management and Budget |

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)**

List Of Abbreviations/Acronyms Used In This Report (Continued)

| | |
|------|--|
| POE | Point of Entry |
| R&D | Research and Development |
| SEFA | Schedule of Expenditures of Federal Awards |
| SF | Short Form |
| U.S. | United States |
| WDC | Metro Waterfront Development Corporation |
| WIA | Workforce Investment Act |

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

| CFDA # | Program Title | Pass Through Number | Expenditures | | Provided to Subrecipient |
|--|---|------------------------|---------------------|-----------|-----------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Agriculture | | | | | |
| Passed Through From Kentucky Education Cabinet: | | | | | |
| 10.555 | National School Lunch Program | 56275999 | \$ 70,638 | \$ | \$ |
| Passed Through From Kentucky Cabinet for Health Services: | | | | | |
| 10.557 | Special Supplemental Nutrition Program for Women, Infants and Children | Multiple | 1,608,927 | | |
| 10.559 | Summer Food Service Program for Children | 056-W45-999 | 487,245 | | |
| Passed Through From Kentuckiana Regional Planning and Development Agency: | | | | | |
| 10.570 | Nutrition Services Incentive | Multiple | 198,317 | | |
| Total U.S. Department of Agriculture | | | \$ 2,365,127 | \$ | \$ |
| U.S. Department of Commerce | | | | | |
| Direct Programs: | | | | | |
| 11.307 | Economic Adjustment Assistance | | \$ 80,000 | \$ | \$ |
| Total U.S. Department of Commerce | | | \$ 80,000 | \$ | \$ |
| U.S. Department of Defense | | | | | |
| Direct Programs: | | | | | |
| 12.607 | Community Economic Adjustment Planning Assistance | | \$ | \$ | \$ |
| Total U.S. Department of Defense | | | \$ | \$ | \$ |
| U.S. Department of Housing and Urban Development | | | | | |
| Direct Programs: | | | | | |
| CDBG - Entitlement and (HUD-Administered) Small Cities Cluster | | | | | |
| 14.218 | Community Development Block Grants/Entitlement Grants | | \$ 14,366,490 | \$ | \$ |
| 14.219 | Community Development Block Grant/Small Cities Program | | 243,204 | | |
| 14.231 | Emergency Shelter Grants Program | | 363,785 | | |
| 14.235 | Supportive Housing Program | | 85,010 | | |
| 14.239 | HOME Investment Partnerships Program | | 2,794,099 | | 781,205 |
| 14.241 | Housing Opportunities for Persons with AIDS | | 412,273 | | |
| 14.246 | Community Development Block Grants/Brownfields Economic Development Initiative | | 189,485 | | |
| 14.238 | Shelter Plus Care | | 1,074,218 | | |
| 14.900 | Lead Based Paint Hazard Control in Privately - Owned Housing | | 122,112 | | |
| 14.NA(1) | Parkland Neighborhood Revitalization Program | | | | |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

| CFDA # | Program Title | Pass Through Number | Expenditures | | Provided to Subrecipient |
|--|--|------------------------|----------------------|-----------|-----------------------------|
| | | | Cash | Noncash | |
| <u>U.S. Department of Housing and Urban Development (Continued)</u> | | | | | |
| Passed Through From Kentucky Transportation Cabinet: | | | | | |
| 14.218 | Community Development Block Grant/Entitlement Grants | C-01060767 | 57,130 | | |
| Passed Through From Kentucky Housing Corporation: | | | | | |
| 14.235 | Supportive Housing Program | KY3B00-1005 | 24,765 | | |
| Passed Through Housing Authority of Louisville: | | | | | |
| 14.850 | Public and Indian Housing | NA | 811,686 | | |
| 14.871 | Section 8 Housing Choice Vouchers | KY131VO | 292,285 | | |
| Passed Through Housing Authority of Jefferson County: | | | | | |
| 14.856 | Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation | NA | | | |
| Total U.S. Department of Housing and Urban Development | | | \$ 20,836,542 | \$ | \$ 781,205 |
| <u>U.S. Department of the Interior</u> | | | | | |
| Direct Programs: | | | | | |
| 15.904 | Historic Preservation Fund Grants-in-Aid | | \$ 125,220 | \$ | \$ |
| 15.919 | Urban Park and Recreation Recovery Program | | | | |
| Passed Through Kentucky Department of Local Government: | | | | | |
| 15.916 | Outdoor Recreation - Acquisition, Development, and Planning | LWCF-21-01259 | | | |
| Total U.S. Department of the Interior | | | \$ 125,220 | \$ | \$ |
| <u>U.S. Department of Justice</u> | | | | | |
| Direct Programs: | | | | | |
| 16.004 | Law Enforcement Assistance - Narcotics and Dangerous Drugs Training | | \$ 24,609 | \$ | \$ |
| 16.305 | Law Enforcement Assistance - Uniform Crime Reports | | 21,892 | | |
| 16.527 | Supervised Visitation, Safe Havens for Children | | 79,433 | | |
| 16.528 | Training Grants to Stop Abuse and Sexual Assault of Older Individuals or Individuals with Disabilities | | 16,440 | | |
| 16.544 | Gang-Free Schools and Communities - Community Based Gang Intervention | | | | |
| 16.565 | National Institute of Justice Domestic Anti-Terrorism Technology Development Program (Counterterrorism Research and Development) | | | | |
| 16.580 | Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | | 21,527 | | |
| 16.590 | Grants to Encourage Arrest Policies and Enforcement of Protection Orders | | 282,736 | | |
| 16.592 | Local Law Enforcement Block Grants Program | | 918,381 | | |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

| CFDA # | Program Title | Pass Through Number | Expenditures | | Provided to Subrecipient |
|--|--|------------------------|---------------------|-----------|-----------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Justice (Continued) | | | | | |
| Direct Programs (Continued): | | | | | |
| 16.595 | Executive Office for Weed and Seed | | 86,225 | | |
| 16.609 | Community Prosecution and Project Safe Neighborhoods | | 46,679 | | 44,358 |
| 16.710 | Public Safety Partnership and Community Policing Grants | | 767,975 | | |
| Passed Through From Kentucky Justice Cabinet: | | | | | |
| 16.523 | Juvenile Accountability Incentive Block Grants | Multiple | 108,248 | | |
| 16.579 | Byrne Formula Grant Program | Multiple | 1,259,192 | | |
| 16.588 | Violence Against Women Formula Grants | Multiple | 158,151 | | |
| 16.595 | Executive Office for Weed and Seed | Multiple | 174,400 | | |
| 16.710 | Public Safety Partnership and Community Policing Grants | 2003SHWX0147 | 239,359 | | |
| Passed Through From Kentucky Administrative Office of the Courts: | | | | | |
| 16.523 | Juvenile Accountability Incentive Block Grants | 2001-JB-BX-0021 | | | |
| 16.549 | Part E - State Challenge Activities | 2002-JE-FX-0007 | 9,449 | | |
| 16.579 | Byrne Formula Grant Program | 1200-025-CMOO | 26,986 | | |
| Total U.S. Department of Justice | | | \$ 4,241,682 | \$ | \$ 44,358 |
| U.S. Department of Labor | | | | | |
| Direct Programs: | | | | | |
| 17.260 | Community Audit Grant | | \$ | \$ | \$ |
| 17.261 | Employment and Training Administration Pilots, Demonstrations, and Research Projects | | | | |
| 17.263 | Youth Opportunity Grants | | 4,814,631 | | 3,365,872 |
| Passed Through Metro Workforce Investment Board: | | | | | |
| 17.253 | Welfare to Work Grants to States and Localities | Multiple | | | |
| Passed Through From Kentucky Cabinet for Workforce Development: | | | | | |
| WIA Cluster | | | | | |
| 17.258 | WIA Adult Program | M-02184747 | 1,052,867 | | 689,847 |
| 17.259 | WIA Youth Activities | M-02184747 | 744,766 | | 536,645 |
| 17.260 | WIA Dislocated Workers | Multiple | 1,855,317 | | 790,089 |
| 17.267 | WIA Incentive Grants - Section 503 Grants to States | M-02184747 | 2,940 | | |
| Passed Through From Kentucky Transportation Cabinet: | | | | | |
| 17.700 | Womens Bureau | NA | | | |
| Total U.S. Department of Labor | | | \$ 8,470,521 | \$ | \$ 5,382,453 |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

| CFDA # | Program Title | Pass Through Number | Expenditures | | Provided to Subrecipient |
|--|---|--------------------------|---------------------|-----------|-----------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Transportation | | | | | |
| Passed Through From Kentucky Transportation Cabinet: | | | | | |
| 20.205 | Highway Planning and Construction | Multiple | \$ 5,526,932 | \$ | \$ |
| 20.219 | Recreational Trails Program | C-02266036 C-03180129 | 313,405 | | |
| 20.512 | Federal Transit Technical Assistance | Multiple | 468,422 | | |
| Passed Through From Kentucky Justice Cabinet: | | | | | |
| Highway Safety Cluster | | | | | |
| 20.600 | State and Community Highway Safety | PT-03-16/PT-04-27 | 53,111 | | |
| 20.601 | Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants | Multiple | 77,608 | | |
| 20.604 | Safety Incentive Grants for Use of Seatbelts | Multiple | 23,575 | | |
| 20.NA(1) | Alternative Labor Sources | NA | 6,368 | | |
| Passed Through Kentucky Department of Local Government: | | | | | |
| 20.219 | Recreational Trails Program | KY20010305-0349 | | | |
| Total U.S. Department of Transportation | | | <u>\$ 6,469,421</u> | <u>\$</u> | <u>\$</u> |
| U.S. Institute of Museum and Library Services | | | | | |
| Direct Programs: | | | | | |
| 45.310 | State Library Program | | \$ 74,909 | \$ | \$ |
| 45.312 | National Leadership Grants | | 38,852 | | |
| Total U.S. Institute of Museum and Library Services | | | <u>\$ 113,761</u> | <u>\$</u> | <u>\$</u> |
| U.S. Environmental Protection Agency | | | | | |
| Direct Programs: | | | | | |
| 66.001 | Air Pollution Control Program Support | | \$ 445,130 | \$ | \$ |
| 66.034 | Surveys, Studies, Investigations and Special Purpose Activities Relating to the Clean Air Act | | 267,864 | | |
| 66.606 | Surveys, Studies, Investigations and Special Purpose Grants Within the Office of the Administrator | | 8,101 | | |
| 66.810 | Chemical Emergency Preparedness and Prevention (CEPP) Technical Assistance Grants Program | | 26,424 | | |
| Passed Through From Kentucky Cabinet for Health Services: | | | | | |
| 66.032 | State Indoor Radon Grants | SPHD | 9,314 | | |
| 66.818 | Brownfields Assessment and Cleanup Cooperative Agreements | Multiple | 25,369 | | |
| Total U.S. Environmental Protection Agency | | | <u>\$ 782,202</u> | <u>\$</u> | <u>\$</u> |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

| CFDA # | Program Title | Pass Through Number | Expenditures | | Provided to Subrecipient |
|---|--|------------------------|-------------------|-----------|-----------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Energy | | | | | |
| Passed Through From Kentucky Cabinet for Natural Resources and Environmental Protection: | | | | | |
| 81.041 | State Energy Program | M-00242141 | \$ 1,933 | \$ | \$ |
| Passed Through From Kentucky Cabinet for Families and Children: | | | | | |
| 81.042 | Weatherization Assistance for Low-Income Persons | M-03121254 | 486,524 | | |
| Total U.S. Department of Energy | | | \$ 488,457 | \$ | \$ |
| U.S. Department of Health and Human Services | | | | | |
| Direct Programs: | | | | | |
| 93.008 | Medical Reserve Corps Small Grant Program | | \$ 41,800 | \$ | \$ |
| 93.048 | Special Programs for the Aging-Title IV-and Title II- Discretionary Projects | | 44,006 | | |
| 93.197 | Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children | | | | |
| 93.926 | Healthy Start Initiative | | 1,058,523 | | |
| 93.230 | Consolidated Knowledge Development and Application (KD&A) Program | | 412,730 | | |
| 93.243 | Substance Abuse and Mental Health Services - Projects of Regional and National Significance | | 255,381 | | |
| 93.283 | Centers for Disease Control and Prevention Investigations - Investigations and Technical Assistance | | 303,864 | | |
| Passed Through From Kentucky Cabinet for Health Services: | | | | | |
| 93.283 | Centers for Disease Control and Prevention Investigations- Investigations and Technical Assistance | Multiple | 583,929 | | |
| 93.116 | Project Grants and Cooperative Agreements for Tuberculosis Control Programs | SDFD | 73,374 | | |
| 93.197 | Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Levels in Children | Multiple | 529,013 | | |
| 93.217 | Family Planning - Services | SJBH | 421,844 | | |
| 93.235 | Abstinence Education | SJB7 | 26,610 | | |
| 93.268 | Immunization Grants | SDFB/SDFA | 160,121 | | |
| 93.399 | Cancer Control | SJG | 151,397 | | |
| 93.767 | State Children's Insurance Program | SAAK | 56,710 | | |
| 93.778 | Medical Assistance Program | SAAG | 27,183 | | |
| 93.940 | HIV Prevention Activities - Health Department Based | SDGH | 120,587 | | |
| 93.944 | Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Syndrome (AIDS) Surveillance | SDGP | 35,701 | | |
| 93.945 | Assistance Programs for Chronic Disease Prevention and Control | SDLV/SJKU | 82,779 | | |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

| CFDA # | Program Title | Pass Through Number | Expenditures | | Provided to Subrecipient |
|---|--|------------------------|----------------------|-----------|-----------------------------|
| | | | Cash | Noncash | |
| U.S. Department of Health and Human Services (Continued) | | | | | |
| Passed Through From Kentucky Cabinet for Health Services (Continued): | | | | | |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse | SABC | 481,000 | | |
| 93.977 | Preventive Health Services - Sexually Transmitted Diseases Control Grants | SDFG | 252,848 | | |
| 93.988 | Cooperative Agreements for State - Based Diabetes Control Programs and Evaluation of Surveillance System | SJKC | 28,411 | | |
| 93.991 | Preventive Health and Health Services Block Grant | Multiple | 246,349 | | |
| 93.994 | Maternal and Child Health Services Block Grant to the States | SJBB | 676,625 | | |
| Passed Through From Kentuckiana Regional Planning and Development Agency: | | | | | |
| 93.556 | Promoting Safe and Stable Families | M-01136025-LJCHI | 31,637 | | |
| 93.045 | Special Programs for the Aging - Title III, Part C-Nutrition Services | M03119179 | 1,258,765 | | |
| Passed Through From Prevent Child Abuse Kentucky, Inc: | | | | | |
| 93.556 | Promoting Safe and Stable Families | C-02207258-05 | | | |
| Passed Through From Kentucky Cabinet for Families and Children: | | | | | |
| 93.568 | Low-Income Home Energy Assistance | Multiple | 2,217,144 | | |
| 93.569 | Community Services Block Grant | Multiple | 1,688,035 | | 15,000 |
| Passed Through From Kentucky Association of Community Action: | | | | | |
| 93.568 | Low-Income Home Energy Assistance | M-2243007 | | | |
| Passed Through From Administrative Office of the Courts: | | | | | |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse | 1200-025-CNIB | 43,239 | | |
| Passed Through From Kentucky Commission for Children with Special Health Care Needs: | | | | | |
| 93.994 | Maternal and Child Health Services Block Grant to the States | Multiple | 65,105 | | |
| 93.NA(1) | Kentucky Early Intervention - Nurse Consultant | NA | 59,524 | | |
| 93.NA(2) | Kentucky Early Intervention - First Step POE's | NA | 30,826 | | |
| Total U.S. Department of Health and Human Services | | | \$ 11,465,060 | \$ | \$ 15,000 |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

| CFDA # Program Title | Pass Through Number | Expenditures | | Provided to Subrecipient |
|--|---|------------------|----------------------|-----------------------------|
| | | Cash | Noncash | |
| <u>U.S. Corporation for National and Community Service</u> | | | | |
| Direct Programs: | | | | |
| 94.002 | Retired Senior Volunteer Program | Multiple | \$ 149,403 | \$ |
| 94.011 | Foster Grandparents | Multiple | 362,718 | |
| Total U.S. Corporation for National Service | | | \$ 512,121 | \$ |
| <u>U.S. Department of Homeland Security</u> | | | | |
| Direct Programs: | | | | |
| 83.516 | Federal Disaster Assistance | | \$ | \$ |
| 97.044 | Assistance to Firefighters Program | | | |
| 97.055 | Interoperable Communications Equipment | | 3,457 | |
| Passed Through From Kentucky Department of Homeland Security: | | | | |
| 97.004 | State Domestic Preparedness Equipment Support Program | Multiple | 36,861 | |
| Passed Through From Metro United Way: | | | | |
| 97.024 | Emergency Food and Shelter National Board Program | 342800-009 | 147,567 | |
| Passed Through From Kentucky Department of Military Affairs | | | | |
| 97.004 | State Domestic Preparedness Equipment Support Program | Multiple | 166,488 | |
| 97.039 | Hazard Mitigation Grant | M-03317490 | 43,710 | |
| 83.551 | Project Impact | EMA-1999-GR-0083 | | |
| 97.042 | Emergency Management Performance Grants | Multiple | | |
| 97.051 | State and Local All Hazards Emergency Operations Planning | M-03055032 | 4,472 | |
| 97.053 | Citizens Corps | M-05052269 | 24 | |
| 97.054 | Community Emergency Response Teams | M-03053041 | 53,421 | |
| Total U.S. Department of Homeland Security | | | \$ 456,000 | \$ |
| Total All Metro Agencies | | | \$ 56,406,114 | \$ 6,223,016 |

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004**

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Basis of Presentation - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*. The accompanying schedule includes all federal grant activity for the Louisville/Jefferson County Metro Government (Metro), and is presented on the modified accrual basis of accounting.

The basic financial statements of Metro are presented on the modified accrual basis of accounting for the governmental fund financial statements and the accrual basis of accounting for the government-wide, proprietary fund, and fiduciary fund financial statements. Therefore, the schedule may not be directly traceable to the basic financial statements in all cases.

Clusters of programs are indicated in the schedule by gray shading.

Note 2 - Type A Programs

Type A programs for Metro mean any program for which total expenditures of federal awards exceeded \$1,690,064 for FY 04. Metro had the following programs that met the Type A program definition for FY 04, some of which were administered by more than one (1) agency. Metro identified clusters among the Type A programs by gray shading. These Type A programs and clusters were:

| <u>CFDA #</u> | <u>Program Title</u> | <u>Expenditures</u> |
|---|--|----------------------------|
| CDBG - Entitlement and (HUD-Administered) Small Cities Cluster | | |
| 14.218 | Community Development Block Grants/ Entitlement Grants | \$ 14,366,490 |
| 14.219 | Community Development Block Grant/ Small Cities Program | 243,204 |
| 14.239 | HOME Investment Partnerships Program | 2,794,099 |
| 17.263 | Youth Opportunity Grants | 4,814,631 |

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)**

Note 2 - Type A Programs (Continued)

| <u>CFDA #</u> | <u>Program Title</u> | <u>Expenditures</u> |
|------------------------------|-----------------------------------|----------------------|
| WIA Cluster: | | |
| 17.258 | WIA Adult Program | 1,052,867 |
| 17.259 | WIA Youth Activities | 744,766 |
| 17.260 | WIA Dislocated Workers | 1,855,317 |
| 20.205 | Highway Planning and Construction | 5,526,932 |
| 93.568 | Low-Income Home Energy Assistance | 2,217,144 |
| Total Type A Programs | | \$ 33,615,450 |

Note 3 - Research and Development Programs

OMB Circular A-133 Section 105 states, “Research and development (R&D) means all research activities, both basic and applied, and all development activities that are performed by a non-federal entity.”

The SEFA included CFDA #16.565, “National Institute of Justice Domestic Anti-Terrorism Technology Development Program (Counterterrorism Research and Development)”. The grant is a zero expenditure program as described in Note 4, and therefore no federal expenditures were reported for FY 04.

Note 4 - Zero Expenditure Programs

These programs had no expenditures during FY 04. The zero expenditure programs included programs with non-expenditure activity reported during the year, such as receipts or accounts receivable.

Note 5 – Programs From Multiple Funding Sources

OMB Circular A-133 Section 105 defines a recipient as “a non-Federal entity that expends Federal awards received directly from a Federal awarding agency to carry out a Federal program” and a pass-through entity as “a non-Federal entity that provides a Federal award to a subrecipient to carry out a Federal program.”

Federal program funds can be received directly from the federal government or passed through from another entity. Below is a list of all federal programs that are funded from more than a single funding source. They may be either (1) multiple passed through agencies, or (2) both direct and passed through. All other federal programs listed on the SEFA are from a single source, and therefore the program totals are evident in the schedule.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)**

Note 5 – Programs From Multiple Funding Sources (Continued)

| CFDA # | Program | Received From (Refer to List of Abbreviations) | Direct/Pass Through (Grantor #) | <u>Amount</u> |
|---------------|--|---|--|----------------------------|
| 14.218 | Community Development Block Grants/Entitlement Grants | HUD | Direct | <u>\$14,366,490</u> |
| | | KTC | Pass Through (C-01060767) | <u>57,130</u> |
| | Total CFDA 14.218 | | | <u>\$14,423,620</u> |
| 14.235 | Supportive Housing Program | HUD | Direct | <u>85,010</u> |
| | | KHC | Pass Through (KY3B00-1005) | <u>24,765</u> |
| | Total CFDA 14.235 | | | <u>\$ 109,775</u> |
| 16.523 | Juvenile Accountability Incentive Block Grants | KY Justice Cabinet | Pass Through (Multiple) | <u>\$ 108,248</u> |
| | | AOC | Pass Through (2001-JB-BX- 0021) | |
| | Total CFDA 16.523 | | | <u>\$ 108,248</u> |
| 16.579 | Byrne Formula Grant Program | KY Justice Cabinet | Pass Through (Multiple) | <u>\$ 1,259,192</u> |
| | | AOC | Pass Through (1200-025- CMOO) | <u>26,986</u> |
| | Total CFDA 16.579 | | | <u>\$ 1,286,178</u> |
| 16.595 | Executive Office for Weed and Seed | DOJ | Direct | <u>\$ 86,225</u> |
| | | KY Justice Cabinet | Pass Through (Multiple) | <u>174,400</u> |
| | Total CFDA 16.595 | | | <u>\$ 260,625</u> |
| 93.283 | Centers for Disease Control and Prevention Investigations - Investigations and Technical Assistance | HHS | Direct | <u>\$ 303,864</u> |
| | | CHS | Pass Through (Multiple) | <u>583,929</u> |
| | Total CFDA 93.556 | | | <u>\$ 887,793</u> |

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)**

Note 5 – Programs From Multiple Funding Sources (Continued)

| CFDA # | Program | Received From (Refer to List of Abbreviations) | Direct/Pass Through (Grantor #) | <u>Amount</u> |
|---------------|--|---|--|----------------------------|
| 93.556 | Promoting Safe and Stable Families | KIPDA | Pass Through (M-01136025-LJCHI) | \$ 31,637 |
| | | Prevent Child Abuse Kentucky, Inc | Pass Through (C-02207258-05) | |
| | Total CFDA 93.556 | | | <u>\$ 31,637</u> |
| 93.568 | Low-Income Home Energy Assistance | CFC | Pass Through (Multiple) | \$ 2,217,144 |
| | | KACA | Pass Through (M-2243007) | |
| | Total CFDA 93.568 | | | <u>\$ 2,217,144</u> |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse | CHS | Pass Through (SABC) | \$ 481,000 |
| | | AOC | Pass Through (1200-025-CNIB) | 43,239 |
| | Total CFDA 93.959 | | | <u>\$ 524,239</u> |
| 93.994 | Maternal and Child Health Services Block Grant to the States | CHS | Pass Through (SJBB) | \$ 676,625 |
| | | KY Commission for Children with Special Health Care Needs | Pass Through (Multiple) | 65,105 |
| | Total CFDA 93.994 | | | <u>\$ 741,730</u> |
| 97.004 | State Domestic Preparedness Equipment Support Program | KY Department of Homeland Security | Pass Through (Multiple) | \$ 36,861 |
| | | KY Department of Military Affairs | Pass Through (Multiple) | 166,488 |
| | Total CFDA 97.004 | | | <u>\$ 203,349</u> |

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004
(CONTINUED)**

Note 6 – Investigations, Audits, and Reviews By Federal Grantors

U.S. Department of Justice

On September 30, 2004, the U.S. Department of Justice submitted findings and recommendations based on its previous financial monitoring visit of the following programs:

| <u>Grant Number</u> | <u>Title</u> |
|---------------------|--|
| 2001JDFX0005 | Gang Free Communities |
| 2001LBBX3754 | Local Law Enforcement Block Grants Program |
| 2002LBBX3754 | Local Law Enforcement Block Grants Program |
| 2002CKWX0064 | COPS Technology Initiative |
| 2002CKWX0065 | COPS Technology Initiative |

DOJ's letter included five (5) recommendations "intended to improve accounting practices and strengthen financial controls". However, no noncompliances were noted.

U.S. Department of Housing and Urban Development

The Metro Department of Housing and Community Development has been informed by the U.S. Department of Housing and Urban Development that its failure to submit the Federal Cash Transaction Report, SF 272, is a noncompliance with program requirements under 24 CFR 85.41. HUD indicated that the program has been noncompliant in this respect since January 1, 2003.

HUD also indicated five (5) areas of concern regarding the program, but did not indicate these to be noncompliances at the time of its monitoring. These areas include: Program Progress/Timeliness, Subrecipient Monitoring, National Objective, Determination of Income, and Lack of Documentation. HUD made recommendations to the department and required additional follow up documentation to monitor the department's improvements.

REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

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

Jerry E. Abramson, Mayor
Louisville/Jefferson County Metro Council

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Louisville/Jefferson County Metro Government as of and for the year ended June 30, 2004, which collectively comprise Metro's basic financial statements and have issued our report thereon dated January 31, 2005. Several agencies were tested for compliance and internal control requirements in accordance with *Government Auditing Standards* by other auditors, whose reports thereon have been furnished to us.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metro's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Metro's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-Metro-1, 04-Metro-2, 04-Metro-3, 04-Metro-4, 04-Metro-5, 04-Metro-6, 04-Metro-7, 04-Metro-8, 04-Metro-9, 04-Metro-10, and 04-Metro-11.



Report on Compliance and 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
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we did not consider any of the items to be material weaknesses. We also noted other matters involving internal control over financial reporting, which we have reported to management.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metro'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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 04-Metro-8. We also noted certain additional matters that we reported to management in a separate letter.

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

Sincerely,



Crit Luallen
Auditor of Public Accounts

January 31, 2005



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133 and on the
Schedule of Expenditures of Federal Awards

Jerry E. Abramson, Mayor
Louisville/Jefferson County Metro Council

Compliance

We have audited the compliance of the Louisville/Jefferson County Metro Government with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004.

Metro's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Metro's management. Our responsibility is to express an opinion on Metro's compliance based on our audit.

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



Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards
(Continued)

Compliance (Continued)

As described in items 04-Metro-12, 04-Metro-13 and 04-Metro-14 in the accompanying schedule of findings and questioned costs, the Metro Department of Housing and Community Development did not comply with requirements regarding subrecipient monitoring, financial reporting, and program income that are applicable to its Community Development Block Grant program. Compliance with such requirements is necessary, in our opinion, for the Department of Housing and Community Development to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Metro complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 04-Metro-15. We also noted certain immaterial instances of noncompliance, which we have reported to management in a separate letter.

Internal Control Over Compliance

The management of Metro is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Metro's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Metro's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-Metro-12, 04-Metro-13, 04-Metro-14, 04-Metro-15, 04-Metro-16, 04-Metro-17, 04-Metro-18, and 04-Metro-19.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being

Report on Compliance With Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133 and on the
Schedule of Expenditures of Federal Awards
(Continued)

Internal Control Over Compliance (Continued)

audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-Metro-12, 04-Metro-13 and 04-Metro-14 to be material weaknesses. We also noted other matters involving internal control over compliance, which we have communicated to management in a separate letter.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Metro as of and for the year ended June 30, 2004, and have issued our report thereon dated January 31, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Metro's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements taken as a whole.

In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to Metro's basic financial statements taken as a whole.

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

Sincerely,



Crit Luallen
Auditor of Public Accounts

Schedule of Expenditures of Federal Awards
January 31, 2005

April 15, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Financial Statements: We issued an unqualified opinion on the basic financial statements of the Louisville/Jefferson County Metro Government (Metro) for the year ended June 30, 2004.

Compliance: In relation to the audit of the basic financial statements of Metro, and the Schedule of Expenditures of Federal Awards, the results of our tests disclosed one (1) instance of noncompliance that is required to be reported under *Government Auditing Standards*. The noncompliance is reported as finding 04-Metro-8. We believe the instance of noncompliance is not material.

Internal Control Over Financial Reporting: Our consideration of Metro's internal control over financial reporting disclosed 11 reportable conditions, indicated as findings numbered 04-Metro-1 through 04-Metro-11. We believe none of the reportable conditions are material weaknesses.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: We issued a qualified opinion on Metro's compliance with the requirements applicable to each of its major federal programs related to the Community Development Block Grant program. The results of our auditing procedures disclosed 4 instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133. These noncompliances are identified as findings numbered 04-Metro-12 through 04-Metro-15. We believe three (3) of the instances of noncompliance are material, noted as 04-Metro-12, 04-Metro-13, and 04-Metro-14.

Internal Control Over Compliance: Our consideration of the Metro's internal control over compliance disclosed 8 reportable conditions, identified as findings 04-Metro-12 through 04-Metro-19. We believe that three (3) of the reportable conditions are material weaknesses, noted as 04-Metro-12, 04-Metro-13, and 04-Metro-14.

Schedule of Expenditures of Federal Awards: We issued an unqualified opinion on Metro's Schedule of Expenditures of Federal Awards. The opinion was issued in relation to the basic financial statements of Metro taken as a whole.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS (CONTINUED)

Identification of Major Programs

The following is a list of major Type A programs:

| CFDA # | Program Title | Expenditures |
|--|--|-----------------------------------|
| CDBG - Entitlement and (HUD-Administered) Small Cities Cluster: | | |
| 14.218 | Community Development Block Grants/ Entitlement Grants | \$14,366,490 |
| 14.219 | Community Development Block Grant/ Small Cities Program | 243,204 |
| 14.239 | HOME Investment Partnerships Program | 2,794,099 |
| 17.263 | Youth Opportunity Grants | 4,814,631 |
| WIA Cluster: | | |
| 17.258 | WIA Adult Program | 1,052,867 |
| 17.259 | WIA Youth Activities | 744,766 |
| 17.260 | WIA Dislocated Workers | 1,855,317 |
| 20.205 | Highway Planning and Construction | 5,526,932 |
| 93.568 | Low-Income Home Energy Assistance | 2,217,144 |
| Total Type A Programs | | <u><u>\$33,615,450</u></u> |

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$1,690,064 million.

Auditee Risk

Metro did not qualify as a low-risk auditee.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

*Reportable Conditions Relating to Internal Controls and/or
Instances of Noncompliance*

04-Metro-1: Metro Should Develop A Policy To Properly Account For Its Internal Investment Pool

The Metro government maintains an internal investment pool. It has not yet developed policies or procedures to determine each fund's participation level within the pool. It also does not have policies or procedures for calculating the allocation of the pool amounts to the various participating funds. Metro's response to this same finding in the prior year indicated that a formal policy and procedure would be developed. However, at the date of our audit, no policy had yet been developed.

For FY 04, the Metro government determined a participation level based upon a percent of total cash and investments to total fund participation. Without changing these investment totals, the amount of investments is spread across all participating funds. Because of the accounting treatment, we could not test participation levels by fund.

Although we reviewed the accounting treatment for reasonableness, we are unable to determine with considerable certainty the appropriateness of the allocation to each fund. In order to determine the reasonableness of the allocation, we reconciled the EVARE Investment Summary to the general ledger. Then we agreed the general ledger to the participation level spreadsheet provided by the Administrator of General Accounting. Finally we verified this spreadsheet to the audit report.

Audits of State and Local Governments, Section 5.25, requires, "Each of the government's funds, activities, and component units should report its own cash and investments, including its equity position in internal investment pools." This requirement makes it clear that the reporting entity should have procedures in place to be able to identify the participation levels of all funds participating in the investment pool.

Failure to properly classify funds in an internal investment pool will result in misclassification of cash and investments reported on the financial statements, and could be misleading to readers of the financial statements. Although the government is able to report the total amount of cash and investments, there is uncertainty as to the percentage of cash and investments that belongs to each fund.

Recommendation

We recommend Metro create procedures to account for the proper treatment of cash and investments as it relates to the pooling of investments in an internal investment pool. We further recommend that policies include procedures for determining each fund's participation levels within the pool.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-1: Metro Should Develop A Policy To Properly Account For Its Internal Investment Pool (Continued)

Management's Response and Corrective Action Plan

Finance followed historical policy to allocate investment balances to funds, based on the percentage of total cash and investments. Metro's internal investment pool practices appear to be consistent with GASB required treatment and disclosure for cash and investments, and our calculation for this allocation is well documented for audit review. We are reviewing our current practices compared to industry standards and practices, and will review and develop formal policy on fund participation in internal investment pool.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-2: Metro Should Improve Internal Controls Over Cash Management Activities

For the year under audit our review of cash we noted the following weaknesses:

- Oversight and monitoring of cash management activities, primarily bank activity and its relationship to the accounting system, needs strengthening. Specifically we noted the following:
 - Missing bank statements (Federated Investors investment account and a trustee account)
 - Bank reconciliations were not prepared in a timely manner.
 - Not all bank account reconciliations were reviewed and approved by appropriate management personnel in a timely manner (within 30-45 days from the end of the month).
 - Activity of various cash accounts was not posted to the general ledger during the fiscal year, specifically, activity for trustee bank accounts. Reconciliations for these accounts were performed at year-end and adjustments were posted during the closing period.
- Standard cash management procedures have not been adopted for use by all agencies, thus there is no consistent method for treating all types of transactions, i.e. standard forms and standard procedures. The agency has made a concerted effort to implement policies and procedures over this process. However, we believe improvement is still needed on consistent application of the various procedures.

A government entity needs an internal control system which provides controls to ensure compliance with laws and regulations, safeguards its assets, checks the accuracy and reliability of its accounting data, and promotes operational efficiency. A good internal control system is essential for the achievement of full accountability, which is a primary issue in today's government.

Good cash management dictates all bank accounts are reconciled monthly. Additionally, bank account information should be verified against general ledger activity. Standard reporting procedures, use of standard reporting forms, and timeliness of fulfilling standard operating procedures, ensures adequate oversight management of the cash functions.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-2: Metro Should Improve Internal Controls Over Cash Management Activities (Continued)

Failure to accurately reconcile bank accounts could cause errors to occur and not be detected in a timely manner. Errors identified during our audit that could result in adjustments include:

- Duplicate entries of checks in cash disbursements records.
- Checks omitted from cash disbursement records.
- Old outstanding checks not written off.
- Incorrect ending cash balances on monthly bank reconciliations.

Inconsistent treatment of accounting policies could result in loss of or misappropriation of assets, inadequate financial reporting, and potential for fraud and abuse.

Recommendation

We recommend that Metro Finance:

- Determine a reasonable time frame for performing the monthly bank reconciliations, and ensure completion of that process in that time frame. Appropriate management personnel should review and approve this process and ensure any adjustments made as a result of this process are accurate.
- Ensure that banking information is appropriately reflected in the general ledger.
- Develop standard cash management procedures for reporting financial transactions from each agency, i.e. use of standard forms.

Management's Response and Corrective Action Plan

During fiscal year 2004, Finance made several improvements over the management and monitoring of cash activity. While there were some exceptions noted by our auditors on the timeliness of preparation and review of cash accounts' reconciliations, Finance did develop better reconciliation procedures over cash monitoring. We have developed and implemented formal reconciliation procedures during fiscal year 2005. Major cash accounts are monitored daily, and formal reconciliations are prepared for each account each month within 10 business days of the end of the month. These reconciliations reflect current account activity and update the general ledger in a timely manner.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-2: Metro Should Improve Internal Controls Over Cash Management Activities (Continued)

Management's Response and Corrective Action Plan (Continued)

Additionally, Metro Government reviewed bank bids during 2004 and restructured all bank accounts. We have begun consolidating numerous accounts, which reduced the number of financial institutions we held accounts with and the number of accounts maintained by Metro Government. Standardization over processing cash transactions has been addressed during the transition to our new account structure.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-3: Metro Should Properly Segregate Investment Duties And Should Require Proper Support Before Approving And Posting Investment Activity

During our review of investments we noted a lack of segregation of duties from the acquisition and disposition of investments to posting in the general ledger. The Administrator of Cash Management or the Assistant Administrator of Cash Management each have the ability to authorize the acquisition, purchase the investment, dispose of investments, and transfer funds between accounts for investment activity. They also create journal vouchers to post the transactions to the general ledger and submit these to general accounting. General Accounting does not require supporting documentation to be attached to the journal voucher. Upon receipt of the journal voucher, general accounting uploads the information into the accounting system.

In the prior year audit, we noted that a lack of separation of duties existed in the acquisition/disposition of investment activity. During FY 04, Treasury has attempted to rectify this by adding an additional review step while completing the journal voucher. However, the journal vouchers were posted by General Accounting without supporting documentation. Although the likelihood may be small, the potential risk for fraudulent activity involving millions of dollars is increased without implementing sufficient controls to reduce the potential risk. As of the year-end, Metro reported an investment balance of \$157 million.

We tested 35 items and all purchase/sales/transfers activity for investments failed our testing attributes for sufficient documentation supporting the journal voucher entries. We were able to independently verify the appropriateness of the purchase, sale or transfer; however, we could not determine the validity of the support for the preparation of the journal voucher used to input the investment information into the accounting system.

Lack of sufficient internal controls over investments could lead to misappropriation of assets and incorrect reporting of investment information in the financial statements. Sufficient supporting documentation is necessary to ensure the appropriateness of entries made to the financial accounting system.

Good internal controls dictate that proper accounting and reporting procedures be implemented over investments to ensure financial reporting is complete and accurate.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-3: Metro Should Properly Segregate Investment Duties And Should Require Proper Support Before Approving And Posting Investment Activity (Continued)

Recommendation

We recommend strengthening internal controls over investments by:

- Requiring approval of all investment transactions through review of adequate supporting documentation by appropriate management personnel.
- Requiring appropriate documentation supporting preparation of investment journal vouchers.

Management's Response and Corrective Action Plan

During fiscal year 2004, Metro Government adopted a new investment policy, which requires cash management personnel to produce and retain written records of each investment related transaction for Metro Government. Additionally, the new policy requires cash management to report all investment transactions to the CFO on a monthly basis, and to the Investment/Cash Management Council on a quarterly basis.

Investment transactions from cash management to be processed in the general ledger electronically have historically been reviewed on an as-needed basis. Due to the volume of documentation from transactions, the current business practice is to maintain the supporting documentation within the cash management division of Finance. Finance will review policy and procedures on the approval and review of journal voucher preparation for investment transactions.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-4: Metro Should Improve Internal Controls Related To Capital Assets

During our review of internal controls over capital assets we noted the following weaknesses:

- Finance does not compile capital asset information in a timely manner. There is no formal system for obtaining capital asset information from all governmental agencies, including reporting requirements for financial statements. For the year under audit, we did not receive complete information for 5 months after the end of the fiscal year.
- There are no control features to ensure that all assets have been included in the financial statements, including:
 - The agency has no procedures for identifying capital assets, such as tagging assets in excess of the capitalization threshold.
 - There is no requirement for periodic physical counts of assets.
- There is no review of purchases, invoices, surplus reports, etc to verify that all capital asset additions and disposals have been properly recorded.
- Capital Asset confirmations were not timely or accurately submitted to the auditor from the agencies:
 - Confirmations from Purchasing and Facilities Management were not received after numerous requests to Finance and Facilities Management.
 - Not all assets were reported on confirmations. Auditor found 11 items that needed to be added to capital asset list due to testing performed.
 - The confirmation received from Public Works did not agree to the capital asset list by agency. The confirmation submitted had assets totaling \$13,930,781.43 however the capital asset list had assets totaling \$1,142,486,211.71 for Public Works.
- Differences were noted between the residual values and/or useful lives of assets in the depreciation report and Metro's Capital Assets Policy manual. These differences include:
 - The residual value for buildings should be 25% of purchase price based upon the Manual. However, a residual value of 20% was used for all buildings per the depreciation report.
 - The Manual indicated that the residual value should be 5% of purchase price for vehicles. No salvage value was used for 58 vehicles, each having a useful life of 20 years.
 - Asset # 12693 Urban Road Network has a useful life of 25 years in the depreciation report, which does not agree to the Capital Assets Policies Manual. The Manual indicates that the useful life for infrastructure should be 15 years.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**04-Metro-4: Metro Should Improve Internal Controls Related To Capital Assets
(Continued)**

Poor internal controls over capital assets could lead to misappropriation of assets and incorrect reporting of capital asset information on the financial statements.

In addition, the differences noted between the government's policy and procedures manual and its actual use indicates either an error in coding assets or an inaccurate written policy. If the differences noted above are errors, the impact is an overstatement of approximately \$16,973,573 for accumulated depreciation related to buildings, an overstatement of approximately \$299,290 for accumulated depreciation related to vehicles, and an understatement of approximately \$64,444,992 for accumulated depreciation related to infrastructure.

Good internal controls dictate that proper accounting and reporting procedures should be implemented over capital assets to ensure that financial reporting is complete and accurate. Also, written policies should be accurate and consistently applied.

Recommendation

We recommend Metro Finance implement the following:

- Develop a reporting system to ensure that all agencies provide reporting information in a timely manner.
- Implement government-wide policies and procedures relating to the proper reporting of capital assets. Management should consider including additional policies to safeguard assets, such as tagging assets and conducting periodic capital asset counts.
- Periodically monitor capital asset activity in the financial accounting system for compliance with policies related to useful lives, salvage values, etc.

Management's Response and Corrective Action Plan

Metro Government has fully implemented a new financial system, which provides a reporting system over all capital assets. Metro Government has also developed, implemented and trained all departments on capital asset policies and procedures relating to the proper reporting of capital assets. Departmental training occurred during May and June 2004, and included instructions over capital asset policies and procedures as well as the monthly monitoring of capital assets.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**04-Metro-4: Metro Should Improve Internal Controls Related To Capital Assets
(Continued)**

Management's Response and Corrective Action Plan (Continued)

Beginning during fiscal year 2005, Metro Finance requires all departments to update capital asset records monthly by the tenth day of the following month. Capital asset information is updated monthly within the system, which provides departments and Finance staff the tools to monitor what has been recorded for each department. Finance has identified a fixed asset team of three individuals and is developing additional verification procedures to ensure accurate asset information. This team is also reviewing procedures for potential periodic physical counts of capital assets in the future. Since the APA noted some exceptions to policies and procedures during their testing, Finance staff has identified these issues and will work to resolve these to ensure accurate financial reporting.

Additionally, during fiscal year 2004, Finance developed reports that allow departments to monitor their expenditures for fixed assets acquisitions. These reports provide information on purchase orders and invoices for departments that could be considered a capital asset. Finance has established year-end procedures to review all asset activity for the year as well as these expenditure reports with departments.

The confirmation of capital assets by individual departments for audit purposes is still a new process for Metro Government, and we will continue focusing on the timeliness of these confirmation submissions to our auditors. Some exceptions were noted this year, but those were appropriately reflected in the final financial information. No exceptions noted remained uncorrected. The specific confirmation from Public Works mentioned above, was a miscommunication from the department. Public Works confirmed \$13,930,781.43 as assets acquired in fiscal year 2004. The total balance of assets for the Public Works department was \$1,142,486,211.71.

Although the capital asset policies and procedures outline estimated residual values and useful lives for certain asset categories, these are just estimated guidelines. Metro Finance will review policies and procedures and adjust to ensure that our residual values and useful lives are accurately reflected.

Some adjustments to our capital asset policies and procedures have been made to reflect accurate residual values and depreciable lives for asset categories. The potential differences noted by the auditors above did not result in any overstatement of asset balances in the financial statements.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-5: Metro Finance Should Improve Its Year-End Closing Procedures And Its Process For Compiling The Financial Statements

During the FY 04 audit of Metro's CAFR, significant weaknesses were noted in Metro Finance's year-end closing procedures and during the preparation of the government's financial statements.

The auditors recommended in the prior year that Metro Finance improve its year-end closing procedures, including establishment of and strict adherence to a closing schedule. In FY 04, Metro Finance implemented a new accounting system and made steps toward the establishment of a closing schedule. However, the auditors noted that even though the trial balance was closed 6 weeks earlier than last year, significant agency activity was recorded through January 10th, 2005, indicating a need for continued improvement. In addition, the January 10th trial balance did not reflect all major activity because Metro Finance made material "manual" and "on-top" adjustments directly to the financial statements through the end of the month.

Also, during the review of Metro's CAFR drafts, auditors identified many areas of concern related to the preparation of the financial statements. The majority of material issues were resolved to the auditors' satisfaction after multiple reviews and discussions. The extent and seriousness of these weaknesses indicate that Metro Finance should continue to improve procedures for compilation of the financial statements. These issues have been identified for management for consideration going forward.

In addition to those issues, reporting inconsistencies were noted throughout the drafts, including significant instances of footing and crossfooting errors, amounts that did not tie between statements or between the statements and the notes, etc. These errors indicate a need for additional reviews of the financial statement drafts.

The effect on the financial statements for FY 04 was reduced through the review and correction process. However, weaknesses of this nature could lead to material undetected misstatements in future years if not corrected.

A government entity needs an internal control system which provides controls to ensure compliance with laws and regulations, safeguards its assets, checks the accuracy and reliability of its accounting data, and promotes operational efficiency. A good internal control system is essential for the achievement of full accountability, which is a primary issue in today's government.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-5: Metro Finance Should Improve Its Year-End Closing Procedures And Its Process For Compiling The Financial Statements (Continued)

Most of the specific financial statement issues noted above are further described by GAAP as promulgated by the Governmental Accounting Standards Board. However, the weakness identified herein relates to Metro Finance's responsibility to detect and correct these issues. Sound management and a control structure sufficient to maintain government operations require staff that is accountable for financial reporting, collectively have or obtain sufficient skill and training to provide adequate oversight needed to meet their responsibilities.

Recommendation

We recommend that Louisville Metro make accurate and complete financial reporting a priority and set a tone throughout the government operation that accurate and complete financial reporting is necessary and required. Procedures should be developed and implemented to ensure that financial managers properly report all information to the reporting team.

We further recommend that the Metro Finance Department implement procedures to periodically identify and address those risks that could lead to inaccurate financial reporting as a result of errors or fraud. These procedures should include but not be limited to:

- Strict adherence to a formal closing schedule that is communicated to all business managers.
- Development of a control list of closing entries and procedures necessary to ensure accurate and complete year-end financial reporting. Metro Finance made a good attempt at this during FY 04 and should add to its list the additional procedures needed to ensure complete financial reporting. Metro Finance could especially benefit from the use of a control list of closing journal entries to ensure specific closing activity is complete each year.
- Establishment of formal procedures to identify and address changes in financial reporting due to either local events or changes in generally accepted accounting principles. The government should be proactive in identifying and addressing these changes, including those impacting component units. Metro Finance should consider the use of a year-end reporting package for agencies and component units to ensure that all needed information is obtained. Further consideration should be given to requiring component units to include these reporting packages in their annual audit if the information is not classified or reported in a manner consistent with the audited financial statements.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-5: Metro Finance Should Improve Its Year-End Closing Procedures And Its Process For Compiling The Financial Statements (Continued)

Recommendation (Continued)

- Enhancement of the collective expertise of accounting staff related to specific financial activities of the merged government, as well as governmental accounting and reporting in general.

Management's Response and Corrective Action Plan

Complete and accurate financial reporting continues to be a high priority for Metro Government. Metro Finance did compile and communicate formal year-end closing instructions to all departments in May 2004, and developed an internal closing schedule for fiscal year 2004.

During fiscal year 2004, Metro Government implemented a new financial system, which did delay a number of year-end deadlines. These schedules will be modified and monitored each year, and Finance continues to communicate financial deadlines to all business managers regularly. As we implemented our new financial system, a list of closing activities and journal entries was compiled, but Finance continued to modify this list as we completed our audit.

Finance adopted an earlier closing schedule and year-end closing procedures, however, we recognize some additional refinements should be implemented. While the auditors noted some inconsistencies in the drafts of our financial statements, Finance did develop a reporting team to review and address those issues. These inconsistencies were only noted in financial statements drafts and were corrected by Metro Finance for the final version of the financial statements.

Metro Finance has historically generated financial statements through a series of several drafts and several reviews of these drafts. Due to the significant size of our CAFR and the various individuals involved with generating this amount of information, a draft and review process is necessary during compilation of our CAFR. Metro Finance will continue to focus on improving our financial reporting process.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-5: Metro Finance Should Improve Its Year-End Closing Procedures And Its Process For Compiling The Financial Statements (Continued)

Management's Response and Corrective Action Plan (Continued)

Metro Finance is very proactive in identifying and addressing changes related to new accounting requirements. Finance has adopted an organizational structure in the last year that emphasizes the accounting program, and has added additional qualified staff to direct the accounting functions of our government. In addition to the new accounting administrator, we have added three more experienced accounting professionals to our staff. Our upper accounting staff is trained heavily in the governmental accounting industry, and participate with national boards and associations to follow current governmental accounting issues. Accounting staff did receive and will continue to receive training annually in order to prepare for upcoming financial issues.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-6: Adequate Payroll Records Should Be Maintained

During our testing of the Metro Government's payroll system we were unable to test certain payroll data because the requested information was not made available to our staff. We requested a sample of 100 employee time records and related payroll registers for various periods during FY 2004 in order to verify the accuracy of the time and attendance record keeping processes, as well as the financial postings to the general ledger system. The results of that sample included:

- We were unable to test nine of the payroll registers because Metro Payroll personnel could not locate those records.
- Six of the requested payroll time reports were not provided to the audit staff, thus preventing verification of time sheet hours reported in the payroll system, as well as the determination of proper authorization of time sheets.
- Seventeen (17) time reports had not been signed by an employee.
- Twenty (20) timesheets had no supervisor's signature authorization.

Code of Federal Regulations Title 29 -- Labor Subtitle B, Chapter V, Part 516.5, requires, "Each employer shall preserve for at least 3 years: (a) Payroll records. From the last date of entry, all payroll or other records containing the employee information and data required under any of the applicable sections of this part, ..." In addition, Part 516.7, requires, "(a) Place of records. Each employer shall keep the records required by this part safe and accessible at the place or places of employment, or at one or more established central record keeping offices where such records are customarily maintained. Where the records are maintained at a central record keeping office, other than in the placed or places of employment, such records shall be made available within 72 hours following notice from the Administrator or a duly authorized and designated representative. (b) Inspection of records. All records shall be available for inspection and transcription by the Administrator or a duly authorized and designated representative."

Code of Federal Regulations Title 29 -- Labor Subtitle B, Chapter V, Part 516.6, requires, "Each employer required to maintain records under this part shall preserve for a period of at least 2 years. (1) Basic employment and earnings records. From the date of last entry, all basic time and earning cards or sheets on which are entered the daily starting and stopping time of individual employees, or of separate work forces, or amounts of work accomplished by individual employees on a daily, weekly, or pay period basis when those amounts determine in whole or in part the pay period earnings or wages of those employees."

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-6: Adequate Payroll Records Should Be Maintained

In addition, Part 516.7, requires, “(a) Place of records. Each employer shall keep the records required by this part safe and accessible at the place or places of employment, or at one or more established central record keeping offices where such records are customarily maintained. Where the records are maintained at a central record keeping office, other than in the placed or places of employment, such records shall be made available within 72 hours following notice from the Administrator or a duly authorized and designated representative. (b) Inspection of records.

All records shall be available for inspection and transcription by the Administrator or a duly authorized and designated representative.” Thus, the agency should maintain adequate documentation of time and attendance records to support information included in the financial statements.

In addition, sound internal control procedures and accounting practices require that payroll records and supporting documentation be maintained in order to properly classify, value, and support amounts reported in the financial statements. Further, sound internal control procedures and accounting practices require that payroll timekeeping records be signed timely by the employee and properly authorized with supervisor’s signature. Such internal controls help safeguard against fraudulent or falsified time reporting.

Failure to maintain adequate supporting payroll documentation calls into question the validity of information included in the accounting system and eventually reported in the financial statements. Furthermore, it violates Federal labor regulations.

In addition, failure to follow prescribed internal control policies and procedures requiring employee and supervisor signatures on time reports threatens the safeguarding of the Metro Government’s assets. In addition, lack of oversight of such timekeeping controls may result in inaccurate payroll accounting and financial reporting. We noted; however, during FY 2004 the Metro Government began its implementation of an electronic time and attendance system. The new electronic time and attendance system should greatly increase the reliability of the timekeeping system and approval process.

Recommendation

We recommend the Metro government develop and implement a government-wide policy for payroll record retention. The policy should be sufficient to comply with the Code of Federal Regulations, Title 29 – Labor Subtitle B, Chapter V, Part 516.5, which requires each employer to preserve payroll records (e.g., payroll registers) for a minimum of 3 years, and Part 516.6, which requires time sheets be maintained and preserved for period of at least 2 years.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-6: Adequate Payroll Records Should Be Maintained (Continued)

Recommendation (Continued)

With the implementation of a formal electronic time and attendance system, we recommend that the Metro Government enforce strong internal controls over timekeeping, adjustments, and authorization procedures.

Management's Response and Corrective Action Plan

Metro Government has records retention policies, which incorporate appropriate schedules of the state records retention schedule and are sufficient to meet audit requirements. The Archives Division of the Department of Information Technology conducted numerous training sessions on record retention policies throughout fiscal year 2004.

Due to the merger of the county and city governments and the movement to implement an electronic time and attendance system Metro-wide, some payroll registers were lost in this transition, but all requested time reports were located. Employee timecard retention and authorization is the responsibility of departments, and applicable policies and procedures have been communicated to departments.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-7: Metro Should Reconcile Payroll Information To The General Ledger

Louisville Metro Government maintained separate payroll systems for the first six months of FY 2004 for the former Jefferson County and the former City of Louisville. A third-party vendor, ADP, performed payroll processing for the former Jefferson County through December 2003. In addition to payroll processing, ADP provided a monthly magnetic tape, for loading payroll data into the general ledger system (LeAP). The former City of Louisville payroll was maintained via PeopleSoft payroll system. Effective January 1, 2004, the PeopleSoft payroll system was used for all payroll processing.

During our testing of this information, we determined that Metro Finance does not reconcile the payroll system to the general ledger (LeAP) payroll accounts. Consequently, we were unable to verify payroll valuation for some of the reported payroll expense classifications. Given that this is a new payroll system with inherent risk of errors being made because it is a new system, we believe performing this reconciliation is a significant control procedure that should be performed, regardless of the newness of the system.

In addition, during our testing of payroll withholding accounts we noted that employee withholdings are not formally reconciled to the financial accounting records and corresponding general ledger accounts. We requested reconciliations for ten (10) of the payroll withholding accounts. Of the information provided, only two of the account balances were adequately supported; however, none of the accounts had been reconciled to the general ledger.

These are a repeated control weaknesses identified by the APA during the FYE 6/30/03 audit. Management's Response and Corrective Action Plan for the noted payroll weakness indicated that a weekly reconciliation of the payroll charges per payroll interface to the payroll register is being performed. While that procedure is certainly a good control procedure to perform, it does not address the weakness we note in this situation. The reconciliation of the payroll interface to the payroll register does not reconcile the payroll system to the general ledger or financial statements, and thus does not indicate any potential errors that may have been made in the payroll system.

During the course of the audit, the auditor made numerous requests for the reconciliation of the payroll system to the general ledger system; however, the performance of this function was not deemed to be beneficial and therefore not performed as requested. We were able to perform this function to satisfy ourselves that information posted to the general ledger was materially accurate, however, this is a function that should be performed by the payroll division each pay period.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**04-Metro-7: Metro Should Reconcile Payroll Information To The General Ledger
(Continued)**

Additionally, Management's Response and Corrective Action Plan for performing the payroll withholding reconciliation indicated that a formal reconciliation would be implemented and regularly performed. This procedure was not performed at the time of our audit.

Sound internal control procedures and accounting practices require that reconciliations be performed regularly to determine the accuracy and integrity of financial information. In addition, the government has a fiduciary responsibility to remit timely all employee withholdings to the appropriate third parties.

Failure to reconcile accounting information to the general ledger prohibits the government's ability to verify the accuracy of payroll data. In addition, general ledger system (LeAP) generated errors may not be discovered and corrected.

Furthermore, failure to reconcile accounting information to the general ledger inhibits the Metro Government's ability to verify that employees' withholdings are remitted timely to the appropriate authorities and properly credited to the employees' personal accounts, as well as properly accounted for in the general ledger system. Finally, failure to reconcile withholdings accounts to the general ledger system permits possible system-generated errors to go undetected.

Recommendation

We recommend the Metro government develop and implement an accounting policy requiring a formal reconciliation of all payroll system information to the general ledger system. The reconciliation should be done in a timely manner whereby the results from performing the reconciliation can be addressed, and corrections made as necessary.

Management's Response and Corrective Action Plan

Due to the timing of the completion of the fiscal year 2003 audit (in late FY 2004) and subsequent receipt of the prior year management comments, it was difficult for Finance to implement each action prior to June 30, 2004. Payroll - withholding accounts were reviewed and reconciled during the audit process, and Metro Finance will ensure in the future that formal reconciliations are performed on a regular basis in a timely manner for all payroll-related balance sheet accounts.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**04-Metro-7: Metro Should Reconcile Payroll Information To The General Ledger
(Continued)**

Management's Response and Corrective Action Plan

The external process related to a third-party vendor for payroll, was eliminated during fiscal year 2004. The internal payroll process interfaces to the general ledger each week when payroll is completed. This process requires the charges on the interface to match the register each week, which is reviewed and completed timely. While no formal reconciliation is created weekly, this check is completed regularly for payroll expenditures.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-8: Metro Should Improve Record Retention Policies For Payroll

The Louisville Metro Government maintained separate payroll systems for the first six months of FY 2004 for the former Jefferson County and former City of Louisville governments. A third-party vendor, ADP, performed payroll processing for the former Jefferson County through December 2003. The former City of Louisville payroll was maintained via PeopleSoft payroll system. Effective January 1, 2004, the PeopleSoft payroll system was used for all payroll processing.

During our testing of the Louisville Metro Government's estimate of employee compensated absences we noted that a record of compensated absences for former Jefferson County employees was not maintained and retained for the first half of the fiscal year 2004.

Sound internal control procedures and accounting practices, require employee timekeeping and related payroll related benefits, such as vacation leave, sick leave, etc., be maintained. In addition, the Code of Federal Regulations Title 29, Part 516, requires, "Each employer shall preserve for at least 3 years: (a) Payroll records. From the last date of entry, all payroll or other records containing the employee information and data required under any of the applicable sections of this part..." Furthermore, in addition to maintaining the required payroll related records for Federal law compliance, the payroll and related records should be referred to in order to properly classify and properly value amounts reported in the financial statements.

The lack of regular oversight by Metro Finance Payroll of employee compensated absences constitutes a control weakness. Although an estimate for the compensated absences for former Jefferson County employees was calculated using the second half of fiscal year 2004, the Metro Government has violated the Code of Federal Regulations Title 29, Part 516, with regards to payroll records retention. This is a repeated federal noncompliance and control weakness identified by the APA during the FY 2003 audit. Management's Response and Corrective Action Plan for the noted weakness in FY 2003 indicated that Metro Louisville has record retention policies sufficient to meet audit requirements; however, this is contrary to our audit findings.

Furthermore, failure to use current payroll system reports decreases the efficiency and reliability of the components comprising the liability estimate. Management's neglect of system resources and related supporting documentation calls into question the validity of information included in the accounting system and subsequently reported in the financial statements.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**04-Metro-8: Metro Should Improve Record Retention Policies For Payroll
(Continued)**

Recommendation

We recommend that Metro Payroll Management and agency payroll representatives review and implement Code of Federal Regulations, Title 29, Part 516, to assure that the required payroll related records are properly retained and available for inspection by federal and state authorities.

Management's Response and Corrective Action Plan

Due to the timing of the completion of the fiscal year 2003 audit (in late FY 2004) and subsequent receipt of the prior year management comments, it was difficult for Finance to implement each action prior to June 30, 2004. Since ADP was used for the first half of the fiscal year 2004 for former Jefferson County employees, compensated absence records were not maintained for those individuals.

The PeopleSoft payroll system was established with controls and rules to ensure compensated absences are calculated and maintained in accordance with Metro Government policy. Effective January 1, 2004 all Metro Government payroll records were maintained on the PeopleSoft system. Based on the records maintained in PeopleSoft for the second half of fiscal year 2004 for the former Jefferson County employees, an estimated compensated absences calculation was computed for those individuals for that period of time. All payroll records are now adequately maintained in PeopleSoft, thereby removing this issue for all future years.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-9: Metro Should Implement Controls To Improve Planning And Implementation Of New Accounting Requirements

GASB Statement No. 39: *Determining Whether Certain Organizations Are Component Units*, an amendment of *GASB Statement 14*, became effective for Metro Government for fiscal year ending June 30, 2004. This pronouncement expanded the definition of entities to be considered for inclusion as component units in a government's financial statements. Metro Finance has the responsibility of evaluating entities meeting the expanded definition for potential inclusion in Metro's CAFR.

Discussions regarding GASB 39 implementation were held with members of Metro Finance management in December 2003, March 2004, and again during the FY 2004 audit entrance conference in July 2004. However, Metro Finance did not begin inquiry of potential component units until September 2004, almost two months after the end of the 2004 fiscal year. Metro Finance's determinations were submitted to auditors on December 7, 2004. Direct financial information or other direct evidence regarding the significance of the potential component units was limited. Indirect information was obtained through inquiry of Metro employees for many of the other potential component units, but no information was obtained to verify Metro's assumptions for several others.

The failure to plan for changes in financial reporting related to GASB 39 in a timely manner left Metro Finance with little opportunity for proper follow up on the majority of entities it deemed to be potentially impacted by GASB 39. Metro determined that no entities were required to be reported under this standard, but due to the timing of its decisions it is unlikely that any entity would have been able to provide audited financial information compatible with the Metro's CAFR (GAAP, GASB 39 format, etc) even if it had been deemed necessary.

Proper internal control dictates that changes in financial reporting due to new accounting standards or other events are planned and implemented in a timely manner to avoid problems that could negatively impact the government's financial statements.

Recommendation

Metro Finance should plan and implement changes in financial reporting in a timely manner, whether they are due to new accounting standards, internal policy or organizational changes, or other events. Specifically, Metro Finance should be aware of multiple new GASB pronouncements (GASB Statements 40-45) with effective dates beginning in FY 2005. Since changes in financial reporting require adjustments to policies or procedures, Metro should initiate these changes prior to the end of the fiscal year impacted. Earlier implementation is necessary for changes impacting accounting activities or policies relevant during the fiscal year.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**04-Metro-9: Metro Should Implement Controls To Improve Planning And
Implementation Of New Accounting Requirements (Continued)**

Management's Response and Corrective Action Plan

Metro Finance does plan ahead to implement changes in financial reporting in a timely manner. Metro Finance maintains an accounting staff that is trained and proficient on current required accounting pronouncements, and their impact on the financial statements of Metro Government. Additionally, Metro Finance does initiate changes related to new accounting pronouncements before the end of the fiscal year impacted.

Metro Finance began initial analysis of GASB Statement No. 39 and potentially impacted entities as early as October 2003. Information was requested and researched throughout fiscal year 2004 and our analysis on GASB Statement No. 39 was completed after the 2004 fiscal year-end. Metro Government is a large and complex organization and numerous departments have several different boards, trust, and foundations established to work with our government. While these entities are not historically large enough to warrant inclusion in Metro Government's CAFR, it was an extensive process to verify, finalize and document our research and conclusions.

Metro Finance has been proactively reviewing upcoming GASB Statements. We are aware of future accounting changes and have trained our staff accordingly and in a timely manner on future requirements.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-10: Metro Should Maintain Proper Supporting Documentation And Improve Procedures For Authorizations Of Financial Transactions

During testing of various accounts, we noted the following:

- Numerous JVs, pay documents and other documentation provided to the auditors did not have proper supporting documentation attached.
- Finance personnel did not perform proper review or authorization procedures before posting transactions, including those related to highly liquid accounts such as cash and investments. Many JVs and other transactions were posted based on phone conversations or e-mails, and without supporting documentation for the transaction.

The failure to obtain proper supporting documentation for transactions and/or the failure to retain such documentation increases the likelihood of erroneous or incomplete transactions posted to the government's general ledger. Furthermore, Metro Finance has a limited ability to safeguard Metro's assets against fraud or abuse when proper review or authorization is not performed.

Proper internal control dictates that supporting documentation should be obtained and reviewed before authorizing transactions to be posted to the general ledger. Furthermore, supporting documentation should be maintained along with the original source documents for subsequent validation of the transactions.

Recommendation

Metro Finance should implement procedures requiring appropriate supporting documentation prior to authorizing and posting transactions to the general ledger. A records retention policy should be developed and communicated to all employees to ensure all support is maintained.

Management's Response and Corrective Action Plan

Maintaining adequate documentation to support all transactions is a significant standard to Finance management and staff and is reinforced by the business practices and procedures currently in place. Finance staff review all manual transactions before processing for accurate and complete information, and tries to communicate those requirements to departmental personnel regularly.

As communicated in the previous year, Metro Government does have a formal records retention policy, which abides by the State Archives and Records Commission's approved policy.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-10: Metro Should Maintain Proper Supporting Documentation And Improve Procedures For Authorizations Of Financial Transactions (Continued)

Management's Response and Corrective Action Plan (Continued)

The Archives Division of the Department of Information Technology has conducted a number of training sessions on the record retention policies throughout fiscal years 2003 and 2004.

During fiscal year 2004 business managers were notified by Finance in several instances when inadequate documentation did not accompany journal vouchers for processing, however, some exceptions remain to this documentation requirement based on the amount of transactions processed by Finance. Although some exceptions were noted, Finance was able to provide adequate support to our auditors overall to enable them to complete sufficient audit testing procedures.

Additionally, Finance will review and update policy and procedures on the approval and review of journal vouchers, as well as, the supporting documentation required to be provided before transactions are processed. These policies will be formally communicated to appropriate personnel.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-11: Metro Should Improve Policies And Procedures Related To The SEFA Compilation

As part of our review of Metro's Schedule of Expenditures of Federal Award (SEFA) we noted multiple significant errors. Specifically, we noted the following errors:

- Approximately \$5,765,713 in non-federal funds was included in the expenditure total, including state grants and agency matching funds.
- Beginning grants balances were in error by \$2,717,856.
- Formula errors were noted creating incorrect totals for many receivable balances, and creating a \$6,561,508 error in the ending grants balances.
- Significant differences were noted in tying expenditures to supporting documentation. We also noted several incidences in which federal expenditures and federal accounts receivable were coded to the general fund.
- The SEFA did not include all applicable federal grants awarded to the government, and included errors in classifying some grants as pass-through or direct awards.

In addition to these errors, the SEFA was not prepared in a timely manner for audit. The errors noted delayed the final SEFA until mid-March 2005, with material changes to federal expenditure balances noted throughout that time.

The effects of these errors on the FY 04 SEFA have been offset since Metro worked to resolve these issues, as well as others noted during their revisions. However, these errors indicate that preparers/reviewers of the SEFA may not be fully aware of the requirements of OMB Circular A-133, putting the government at risk for material misstatements in the future. The failure to completely and accurately report required information on the government's SEFA potentially could be a material noncompliance and could jeopardize federal funding.

Also, the timely preparation of the SEFA is an important step toward obtaining a timely audit of federal awards. Auditors are unable to finalize major program decisions until federal expenditures are materially identified.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-11: Metro Should Improve Policies And Procedures Related To The SEFA Compilation (Continued)

OMB Circular A-133, Subpart C-Auditees; §___.300 Auditee responsibilities states, "The auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with §___.310."

Recommendation

At a minimum, Metro Grants Management should follow guidance in OMB Circular A-133 for preparation of the government's SEFA. In addition to this guidance, the SEFA should be reviewed for mathematical accuracy and completeness. Finally, all federal transactions should be substantiated by valid supporting documentation, and should be properly maintained.

To assist in a timely and accurate compilation of the SEFA, we recommend that Metro Grants Management implement procedures to obtain grant activity directly from the various Metro agencies that administer federal funds. The agency personnel administering federal funds are required to maintain detailed accounting records supporting the day-to-day operations of the federal programs, and should be familiar with all aspects of federal financial reporting. Therefore, those agencies should have information readily available to assist in the SEFA compilation.

Implementing this procedure will require training for agency personnel to identify and report specific elements needed by Grants Management for the SEFA compilation. But overall this procedure should help reduce redundancy in grants accounting, place responsibility at proper levels for grants accounting, improve communication so agencies understand where and how its SEFA information is derived, and provide additional time for Grants Management personnel to focus on resolving problems and assisting agencies.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

04-Metro-11: Metro Should Improve Policies And Procedures Related To The SEFA Compilation (Continued)

Management's Response and Corrective Action Plan

During fiscal year 2004, Metro Government reorganized the Grants Management division within the Finance department. This division of Finance was created to monitor grant activities for Metro Government. Grants Management has developed policies and procedures during fiscal year 2005 to obtain grant activity from all departments that receive federal or state funds and compile SEFA related information quarterly. Grants Management developed these policies and procedures specifically in accordance with guidance in OMB Circular A-133 for preparation of Metro's SEFA. We will continue developing our internal processes for this new division and consider the audit findings as we implement these policies as a new division of Metro Finance.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

Material Weaknesses and/or Material Instances of Noncompliance

04-Metro-12: Metro Department Of Housing Should Implement Subrecipient Monitoring Procedures For The CDBG And HOME Programs

Federal Program(s): CFDA 14.218 - Community Development Block Grant
CFDA 14.239 - HOME Investment Partnership Act
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Subrecipient Monitoring
Amount of Questioned Costs: None

Our review of subrecipient monitoring for the Community Development Block Grant (CDBG) and HOME Investment Partnership (HOME) programs determined that on-site programmatic monitoring of contracts and subrecipients was not performed by the Metro Department of Housing during FY 2004 as required by the U.S. Department of Housing and Urban Development (HUD) for CDBG. HUD also noted this issue during an on-site monitoring visit for CDBG August 16-20, 2004. HUD cited this and other specific issues relating to the program and reported them by letter dated October 27, 2004. Auditors could also not determine that subrecipient single audits were obtained and reviewed for program related findings. At least two CDBG subrecipients exceeded the single audit threshold for FY 04.

Also, testing indicated that whereas some project-specific monitoring and reviews were performed during FY 2004 for the HOME program, there were no formal performance evaluations documented for Community Housing Development Organizations (CHDO's). The CHDO's were listed as subrecipients for the HOME program, and therefore were reviewed for compliance with subrecipient monitoring. Based on the documentation reviewed, it would appear that certain review activities occur, but there does not appear to be a formal plan for programmatic monitoring and no standardized documentation indicating dates and results of performance evaluations.

The failure to monitor the performance of contracts and/or subrecipients is a material noncompliance with program requirements for both CDBG and HOME. The total amount of funds expended on CDBG contracts and subrecipients that were not monitored totaled \$14,366,490 for FY 2004. Total expenditures for HOME subrecipients totaled \$781,205.01 for FY 2004.

24 CFR 85.26 (b) (1) through (3) states, "State or local governments...shall: (1) determine whether State or local subgrantees have met the audit requirements of the Act and whether subgrantees covered by OMB Circular A-110, 'Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations', have met the audit requirements of the Act. (2) Determine whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-12: Metro Department Of Housing Should Implement Subrecipient Monitoring Procedures For The CDBG And HOME Programs (Continued)

This may be accomplished by reviewing an audit of the subgrantee made in accordance with the Act, Circular A-133, or through other means (e.g. program reviews) if the subgrantee has not had such an audit. (3) Ensure that appropriate corrective action is taken within six months after receipt of the audit report in instance of noncompliance with Federal laws and regulations.”

24 CFR 85.40 (a) states, “Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.”

24 CFR 92.504 states, “The participating jurisdiction is responsible for managing the day to day operations of its HOME program, ensuring that HOME funds are used in accordance with all program requirements and written agreements, and taking appropriate action when performance problems arise. The use of State recipients, subrecipients, or contractors does not relieve the participating jurisdiction of this responsibility. The performance of each contractor and subrecipient must be reviewed at least annually.”

Recommendation

Metro Department of Housing has already submitted newly established policies and procedures for contract monitoring to HUD. We recommend that the monitoring procedures be implemented as soon as possible, and measures be taken to ensure that all contracts and subrecipients are identified for inclusion. Furthermore, we recommend that the monitoring schedule recommended by HUD be prepared, maintained and followed up annually in order for Program Management personnel to have a tool with which to gauge its monitoring progress. In addition to the schedule, Program Management should maintain written documentation of the on-site visit, of results submitted to the contractor or subrecipient for corrective action, and of follow up on noted deficiencies or concerns.

Subrecipient single audits should also be obtained and reviewed for CDBG and HOME related findings and for compliance with A-133 as required. Written documentation of this review should also be maintained, along with follow up of any CDBG or HOME related findings within the six-month timeframe required by HUD.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-12: Metro Department Of Housing Should Implement Subrecipient Monitoring Procedures For The CDBG And HOME Programs (Continued)

Management's Response and Corrective Action Plan

The Program Management staff of Louisville Metro Housing and Community Development is currently implementing the newly established policies and procedures for subrecipients as approved by the U.S. Department of Housing and Urban Development. Currently, a Risk Assessment of both subrecipients and Metro Agencies is being conducted in order to identify high, medium and low risk agencies and to formulate a monitoring schedule accordingly. Per the Kentucky State Office of the U.S. Department of Housing and Urban Development, this monitoring schedule and risk assessment was forwarded to U.S. HUD on March 31, 2005.

Actual monitoring will begin in April of 2005 and will meet all HUD requirements for subrecipient monitoring. Additionally, a uniform monitoring checklist has been developed to track compliance with all applicable CDBG and HOME monitoring standards requirements. The utilization of these monitoring checklists, as well as pre- and post- monitoring correspondence, will adequately display the efforts Program Management has performed and will serve as an adequate tool to track monitoring compliance. It is the intent of the Program Management Division to utilize the subrecipient monitoring process as a positive tool to not only insure compliance with applicable regulations and requirements, but to increase subrecipient performance and reporting.

Currently, subrecipient A-133 audits are being reviewed as Program Management receives them. A process for monitoring A-133 compliance is currently being developed and should be implemented within the next year. This process will include a tracking mechanism to identify potential A-133 threshold subrecipient amounts internally, and it will require subrecipients to provide documentation from their accounting firm that the \$500,000 in Federal funding threshold was not exceeded or it will require subrecipients to provide an annual financial audit.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-13: Metro Department Of Housing Should Prepare Federal Cash Transaction Reports As Required For The CDBG Program

Federal Program(s): CFDA 14.218 - Community Development Block Grant
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Reporting
Amount of Questioned Costs: None

The Metro Department of Housing did not report required quarterly Federal Cash Transactions Reports (Standard Forms 272, 272A) during FY 2004 within required time frames. These reports are required to be filed quarterly. Metro did not file any of the four reports until December 28, 2004. Thus, one of the reports would have been over one year late in its filing, while the other three reports would have been filed significantly later than the required 15 day time frame for filing these reports with the federal granting agency.

We noted several reporting errors on the reports that were filed. For each of the SF-272 quarterly reports submitted, line 11f. "Gross disbursements," did not properly reflect the total Federal cash disbursements made during the reporting period. Likewise, line 11h. "Net disbursements (Line f minus line g)," did not agree to the total reported on line 5(c) of the 272A Continuation report. We also noted that for each of the SF-272 quarterly reports submitted, the total of lines 11h and 11i did not agree to the cumulative disbursements total required to be reported on line 5(d) Totals - Cumulative Net Disbursements per SF-272A Continuation report.

Failure to submit the quarterly Federal Cash Transaction Reports, SF-272 (and SF-272A), inhibits the U.S. Department of Housing and Urban Development from monitoring the Department of Housing's cash disbursements, program income, and Federal receipts (draw downs) activities during the reporting period. In addition, failure to submit the quarterly Federal Cash Transaction Reports is a Federal noncompliance.

In accordance with the Code of Federal Regulations Title 24- Housing And Urban Development – Part 85.41, *Financial Reporting*, and as prescribed by OMB A-133 CFDA 14.218 Community Development Block Grants/Entitlement Grants, the Department of Housing is required to submit Standard Form 272, Federal Cash Transactions Report, and when necessary, its continuation sheet, Standard Form 272A, for purposes of monitoring cash advances, disbursements or outlay information for each grant. The reports are due no later than 15 working days following the end of each quarter.

Proper internal controls over reporting suggest that management have written policies and procedures in place to provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency include all activity of the reporting period, are supported by underlying accounting records, and are fairly presented in accordance with program requirements.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-13: Metro Department Of Housing Should Prepare Federal Cash Transaction Reports As Required For The CDBG Program (Continued)

Recommendation

The Department of Housing should prepare the required Federal Cash Transaction Report, SF-272, according to the SF-272 instructions. The report should be properly supported by financial records and reconcile to the general ledger (LeAP system). In addition, the report should be reviewed for accuracy, signed by the authorized certifying official and submitted to the Federal-awarding agency no later than 15 working days following the end of each quarter.

The Department of Housing should consider developing written policies and procedures to provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency include all activity of the reporting period, are supported by underlying accounting records (including reconciliation to the general ledger), are fairly presented in accordance with program requirements, and are submitted timely.

Management's Response and Corrective Action Plan

In their On-site Monitoring Review letter dated October 27, 2004, the Louisville District HUD Office duly noted the fact that the reports had not been submitted as required. The corrective action for this finding required the Housing Department to submit SF272's beginning January 1, 2004 through September 2004 by December 31, 2004. These were prepared and submitted on December 27, 2004. The fourth quarter of 2004 was due to HUD by the extended dated of January 31, 2005. The fourth quarter of 2004 was submitted to the local HUD office on January 31, 2005.

The Housing Department will continue working with the Finance Department and HUD to ensure that proper filing procedures are followed and reports are completed timely. Additional procedures will be developed to ensure accurate reflection of financial information.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-14: Metro Department Of Housing Should Implement Policies And Procedures To Improve Cash Management And Properly Account For And Monitor Program Income

Federal Program(s): CFDA 14.218 - Community Development Block Grant
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Program Income and Cash Management
Amount of Questioned Costs: None

The Metro Department of Housing was unable to identify the complete amount of program income earned during the year for the Community Development Block Grants (CDBG). The final amount for FY 2004 of \$924,154 was not determined until mid-March 2005. However, only \$487,279.26 of program income was reported on the Federal Cash Transactions Report for the first quarter of FY 2004. This report was filed one year past the due date, noted in a separate finding. The remaining portion of the program income (\$436,875) was not reported to the Federal-awarding agency during FY 2004.

In addition, it appears that program income has been misapplied in the calculation of CDBG entitlement draws during FY 2004. The department was unable to identify the specific grant year(s) associated with the program income, and therefore reported the majority of the program income in one grant year. This problem does not affect the department's accounting for the cumulative total of all CDBG grants, but it does impair its ability to properly account for each grant.

By not properly identifying the program income requirement, the Department of Housing has not met its cash management requirements for properly drawing down federal funds. Our testing indicated that sufficient supporting documentation existed for making the request for funds, except for the proper application of program income as a net amount against the draw amount.

The failure to properly account for and identify program income leads to inaccurate accounting records since the income could not be applied to expenditures when calculating entitlement drawdown amounts. Even though the unidentified program income was not applied during FY 2004, this is a potential problem when the agency resumes draw downs of CDBG funds.

Also, the department has a responsibility to document the sources of program income and verify its validity for the CDBG program. If the program income could not be identified during the year, it is questionable whether program personnel monitored the sources and validity.

24 CFR 570.504 (a) states that the receipt and expenditure of program income shall be recorded as part of the financial transactions of the grant program. 24 CFR 570.504 (2)(ii) states that substantially all other program income shall be disbursed for eligible activities before additional cash withdrawals are made from the U.S. Treasury.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-14: Metro Department Of Housing Should Implement Policies And Procedures To Improve Cash Management And Properly Account For And Monitor Program Income (Continued)

Recommendation

The Department of Housing should implement policies and procedures to properly account for and monitor the sources and uses of all program income related to the CDBG program. We suggest development of a comprehensive system for determining program income amounts in order to assure that program income is correctly earned, recorded, used in accordance with program requirements, and program income reported accordingly. This system should then accomplish the establishment of a better cash management program for making federal draw downs.

Management should continually compare the general ledger program income to budgeted program income and investigate significant fluctuations. In addition, program income earned during FY 2004 through the present should be researched to identify and correct accounting records of specific grant years. This should be performed prior to resuming draw downs of CDBG funds. If CDBG draw downs have resumed, the agency should take the necessary action to ensure that program income has not been misapplied.

Management's Response and Corrective Action Plan

While transitioning from two accounting systems into a new financial system during fiscal year 2004, there were some difficulties in accurately identify the receipt of program income by the Housing Department. That situation has greatly improved since initial implementation of the financial system, since the Finance and Housing Departments have established accounts within the new financial system to track program income more efficiently. The Housing Department will continue working with the Finance Department to implement policies and procedures that will provide the Housing Department more timely information in regard to the receipt of program income by Metro Government that is generated by activities funded with entitlement funds.

The Metro government believes that program income has been applied appropriately in the calculation of CDBG entitlement draws during FY 2004. Program income is applied on a first-in, first-out basis. When an account in our financial system shows program income has been debited to it, that program income is applied to the next expenditure that is being drawn down from IDIS. This is a requirement of the CDBG program, both for U. S. Treasury requirements as well as determining program benefit. Thus, there is no difference between a current year and prior year expenditure.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-14: Metro Department Of Housing Should Implement Policies And Procedures To Improve Cash Management And Properly Account For And Monitor Program Income (Continued)

Management's Response and Corrective Action Plan (Continued)

Metro Government is able to identify the specific grant year associated with the program income because the income is debited to a specific project or activity identified with a specific grant year in our financial system when it is received.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

*Reportable Conditions Relating to Internal Controls and/or
Instances of Noncompliance*

04-Metro-15: Metro Should Develop And Implement An Indirect Cost Allocation Plan Prior To Charging Indirect Costs To Any Federal Program

Federal Program(s): CFDA 14.218 - Community Development Block Grant
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Allowable Costs
Amount of Questioned Costs: \$400,000

OMB Circular A-87, Attachment C, part D (3) and (4) states, "...local governments claiming central service costs must develop a plan in accordance with the requirements described in this Circular and maintain the plan and related supporting documentation for audit" and "all central service cost allocation plans will be prepared and, when required, submitted within six months prior to the beginning of each of the governmental unit's fiscal years in which it proposes to claim central service costs."

Auditors noted a total of \$400,000 charged to indirect costs for the Community Development Block Grant (CDBG) program during FY 2004. These indirect costs were split between the 2003 and 2004 grant years. However, the Metro government did not have an indirect Cost Allocation Plan (CAP) in effect for either FY 2003 or FY 2004 as required by OMB Circular A-87.

Indirect costs are generally allowable charges to the CDBG program. However, the cost circular requires the CAP be in place prior to allocating indirect costs to specific federal programs. Furthermore, the CDBG program requires all costs to be committed within 12 months from the award date. Due to these reasons, the indirect costs charged against this program are in question. The government did not allocate indirect cost charges to any other federal program during the fiscal year.

Charging indirect costs to a federal program without an appropriate CAP in place for the year is a noncompliance with OMB Circular A-87. The CAP provides the basis for establishing fair and equitable distribution of charges. With a CAP in place, the actual share of indirect costs attributed to the CDBG plan may have been higher than the amount charged. However, given that no other federal programs were charged, and there is no CAP to provide support for the amount billed, this does not appear to be a fair and equitable distribution.

Recommendation

We recommend that Metro Finance prepare appropriate cost allocation plans for FY 2003 and FY 2004 if it intends to recoup indirect costs for those periods.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-15: Metro Should Develop And Implement An Indirect Cost Allocation Plan Prior To Charging Indirect Costs To Any Federal Program (Continued)

Recommendation (Continued)

Metro Finance should present these plans to the APA, along with its detailed plan to recoup indirect costs for prior years, taking into consideration current conditions such as closed grants, impact of the government's FY 2003 merger, etc.

In addition, Metro Finance should also follow OMB Circular A-87 guidance and time frames in the preparation of the current FY 05 cost allocation plan. The FY 05 plan should be in place prior to charging any federal program. We recommend that Metro Department of Housing consider contacting the U.S. Department of Housing and Urban Development to clear the questioned costs. Documentation of this communication should be maintained and presented during the FY 05 audit.

Management's Response and Corrective Action Plan

During the transition of merging the City of Louisville and the Jefferson County Governments in 2003, and the transition to a new financial system in 2004, the indirect cost allocation plan for the Metro Government had not been completed. There were approved plans completed for the former Jefferson County government for 2003 and the former City of Louisville for 2002, and estimated indirect costs were based on those previously approved plans.

During fiscal year 2005, Metro Finance worked with the U.S. Department of Labor to ensure that a proper plan was being completed, and appropriate time frames were considered in correlation with the cost allocation plan. Cost allocation plans are currently completed for the Metro Government for 2003 and 2004, and are pending review for certification. Additionally, we have developed a process to ensure that the indirect cost plan will be completed timely in the future and applied to appropriate funds.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-16: Metro Department Of Housing Should Improve Procedures And Strengthen Internal Controls Over Cash Management Related To The HOME Program

Federal Program(s): CFDA 14.239 – HOME Investment Partnership Act
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Cash Management
Amount of Questioned Costs: None

As part of our cash management testing for the HOME Investment Partnership program, we noted that the Metro Department of Housing was only able to provide auditors with supporting documentation for three (3) draw downs performed during fiscal year 2004 for the HOME grants, with the last being on September 5, 2003. Those draw downs appeared to be reimbursement for expenditures incurred during FY 2003. No additional draw downs were performed during the year, indicating that expenditures paid during FY 04 were subsidized by the government's own resources longer than necessary. Even though there are no specific HOME requirements for timing of draw downs, failure to make draw down requests for reimbursement of federal program activities indicates a serious lapse in internal control regarding cash management activities.

Auditors also noted in a separate finding the department's difficulty identifying program income. Even though this issue would not likely impact the cumulative total of all HOME grants, it could result in incorrect balances for each individual HOME grant, making it difficult to properly apply program income when draw downs resume.

The failure to perform timely draw downs places an undue burden on Metro's cash and investments pool, and limits Metro's cash management and earning potential. The amount of un-reimbursed expenditures paid in FY 2004 for the HOME program was approximately \$2,794,099.

Proper internal controls over cash management activities dictates that cash draws are performed in a timely manner to minimize the burden on the government's own resources due to the administration of federal programs.

Recommendation

The department should develop written policies and procedures related to federal draw downs using the HUD IDIS system. These procedures should specifically address performing draw downs within a reasonable time frame after expenditures are incurred, and incorporate improved supervisory responsibility to ensure the draws are accurate and timely. Staff members and supervisors responsible for cash management should be identified by the department, and properly trained.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-16: Metro Department Of Housing Should Improve Procedures And Strengthen Internal Controls Over Cash Management Related To The HOME Program (Continued)

Recommendation (Continued)

In addition, the Department of Housing should incorporate the recommendations noted in the separate program income finding in order to ensure grant balances are accurate prior to resuming draw downs.

Management's Response and Corrective Action Plan

During fiscal year 2004, the Metro Government implemented a new financial accounting system. During this implementation, there was a transitional period to convert all departmental activities to the new system. Until completion of this conversion, it was difficult for the Housing Department to identify specific account code combinations for various projects and activities. The implementation of our financial system is complete, and should not be the source of any future delay in performing appropriate monitoring and drawing down of funds.

Additionally, the Housing Department is currently reviewing their draw down process, and will assign specific staff the responsibility of monitoring and performing draw downs regularly. These staff members will receive formal training on the HUD IDIS system, and will ensure that future draw downs remain current.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

**04-Metro-17: Metro Department Of Housing Should Improve Internal Controls
Over Program Income For The HOME Program**

Federal Program(s): CFDA 14.239 – HOME Investment Partnership Act
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Program Income
Amount of Questioned Costs: None

During our review of the HOME Investment Partnership program (HOME), the Metro Department of Housing was unable to identify the complete amount of program income earned during the year for HOME grants. The final amount for FY 2004 of \$789,231 was not determined until mid-March 2005. Furthermore, the department was unable to identify the specific grant year(s) associated with the program income, and therefore reported the majority of the program income in one grant year. This problem does not impact the department's accounting for the cumulative total of all HOME grants, but it does impair its ability to properly account for each grant.

Auditors did not determine that this problem led to a misapplication of program income in calculating entitlement draws during FY 2004. This is because Metro Department of Housing did not perform draw downs for reimbursement of expenditures incurred during the year, as noted in a separate finding.

The failure to properly account for and identify program income leads to inaccurate accounting records since the income could not be applied to expenditures when calculating entitlement draw down amounts. Even though the income was not applied during FY 2004, this is a potential problem when the agency resumes draw downs of HOME funds.

Also, the department has a responsibility to document the sources of program income and verify its validity for the HOME program. If the program income could not be identified during the year, it is questionable whether program personnel monitored the sources and validity.

24 CFR 92.508 (a) (5) (i) and (iii) states that the jurisdiction should maintain "Records identifying the source and application of funds for each fiscal year, including the formula allocation, any reallocation (identified by federal fiscal year appropriation), and any State or local funds provided under 92.102 (b)" and "records identifying the source and application of program income, repayments, and recaptured funds."

Recommendation

The Department of Housing should implement policies and procedures to properly account for and monitor the sources and uses of all program income related to the HOME program.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

**04-Metro-17: Metro Department Of Housing Should Improve Internal Controls
Over Program Income For The HOME Program (Continued)**

Recommendation (Continued)

Furthermore, program income earned during FY 2004 through the present should be researched to identify and correct accounting records of specific grant years. This should be performed prior to resuming draw downs of HOME funds. If HOME draw downs have resumed, the agency should take the necessary action to ensure that program income has not been misapplied.

Management's Response and Corrective Action Plan

While transitioning from two accounting systems into a new financial system during fiscal year 2004, there were some difficulties in accurately identify the receipt of program income by the Housing Department. That situation has greatly improved since initial implementation of the financial system, since the Finance and Housing Departments have established accounts within the new financial system to track program income more efficiently. The Housing Department will continue working with the Finance Department to implement policies and procedures that will provide the Housing Department more timely information in regard to the receipt of program income by Metro Government that is generated by activities funded with entitlement funds.

Metro Government is able to identify the specific grant year associated with the program income because the income is debited to a specific project or activity identified with a specific grant year in our financial system when it is received. Additional discussion related to draw downs is discussed in a previous comment in this report.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-18: Metro Department Of Public Works Should Improve Procedures For Coding Federal Activity In The Financial Accounting System

Federal Program(s): CFDA 20.205 – Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Compliance Area: Allowable Costs and Matching

Amount of Questioned Costs: None

As part of our audit of CFDA 20.205 – “Highway Planning and Construction” - we reviewed three grants administered by the Department of Public Works. These grants were: 1) 2nd Street Widening Project; 2) Aiken Road Bridge; and 3) Cooper Chapel I. In each of these grants, the federal match was 80% of costs, and all federal funds were passed through from the Kentucky Transportation Cabinet. During our audit, we compared the federal portion of expenditures reported on the requests for reimbursement (in the agency’s grant files) to the general ledger to determine if federal expenditures were recorded correctly. This comparison revealed the following:

- 2nd Street Widening Project – Requests for reimbursement indicated federal expenditures for FY 2004 totaled \$1,425,098; however, the LeAP Unit Activity Report for this federal program indicated that only \$1,381,990 posted to Fund 8651 (Pass Through Federal Other). We could not readily determine the fund(s) in which the remaining federal expenditures (\$44,027) were posted. In addition, we noted one instance in our expenditure sample where the federal match was not posted correctly to the LeAP system. It appeared to be the result of the numbers being transposed which resulted in a \$360 overstatement of the federal portion.
- Aiken Road Bridge – Requests for reimbursement indicated federal expenditures for FY 04 totaled \$947,621. However, the LeAP Unit Activity Report indicated that only \$977,020 was recorded. The difference of \$29,399 was investigated, and we determined that 100% of some expenditures were charged as federal expenditures when only 80% should have been charged. This resulted in an overcharge of \$29,912. In addition, 100% of some expenditures posted to Fund 8672 (Municipal Aid Cap) as local match expenditures when only 20% should have been posted as the match portion. This error resulted in an undercharge to federal expenditures of \$483.60.
- Cooper Chapel I – Requests for reimbursement indicated federal expenditures for FY04 totaled \$1,044,648; however the LeAP Unit Activity Report indicated that only \$1,041,589 posted to Fund 8601 (Federally Funded Other Cap). We could not readily determine where the remaining \$3,059 was posted. It is possible this difference is attributable to a receivable relating to FY 03 expenditures.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-18: Metro Department Of Public Works Should Improve Procedures For Coding Federal Activity In The Financial Accounting System (Continued)

Due to the fact that more than one fund may have been used to record federal expenditures for each project, expenditures were not easily identifiable in the agency's accounting system. In addition, coding errors resulted in a net understatement of federal expenditures, which carried over in the preparation of the Schedule of Expenditures of Federal Awards (SEFA). Thus, these errors resulted in federal expenditures being incorrectly reported on the SEFA. The effect of these errors for each grant reviewed was:

- 2nd Street Widening - understated \$44,027
- Aiken Road Bridge - overstated \$29,398.60
- Cooper Chapel I - understated \$3,058

Sufficient internal controls over allowable costs and matching requirements should be in place to ensure that expenditures for federally funded projects are correctly charged and are easily identifiable in the agency's accounting system. In addition, internal controls should be sufficient to ensure that costs are distributed accurately according to the federal and local match requirements set forth in the grant award.

Recommendation

We recommend that internal controls over coding of expenditures be strengthened in order to ensure that federal expenditures are posted correctly and that federal and local match requirements are met. In addition, we recommend that, at least monthly, the Business Manager or other designee reconcile the Department of Public Work's records of federal expenditures to the agency's accounting system in order to ensure that expenditures have been correctly charged. This reconciliation will allow the Department of Public Works to make any necessary corrections of errors in a timely manner, as well as to ensure that federally expenditures are correctly reported on the SEFA at year-end.

Management's Response and Corrective Action Plan

Metro Government encourages departments to monitor and reconcile federal activity regularly in correlation with the preparation of grant reimbursement requests and financial report filings. Additionally, during 2004, Metro Finance developed a Grants Management Team to assist departments with the monitoring of grant financial activity. This division of Metro Finance is currently reviewing policies and procedures over grants monitoring requirements, and will review these recommendations during implementation of required policies.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

04-Metro-19: Metro Waterfront Development Corporation Should Improve Procedures For Coding Federal Activity In The Financial Accounting System

Federal Program(s): CFDA 20.205 – Highway Planning and Construction

Federal Agency: U.S. Department of Transportation

Compliance Area: Allowable Costs

Amount of Questioned Costs: None

During our audit of CFDA 20.205 – “Highway Planning and Construction” - administered by the Waterfront Development Corporation (WDC), we noted that, although the River Road Traffic Islands project was budgeted in Fund 8601 (Federally Funded Other), the federal expenditures were charged to various other special revenue and capital funds. These funds included: Federally Funded Other Cap (8601), State Fund Cap (8671), and the Capital Project Fund (8101). In addition, we noted that charges totaling \$30,186 had been incorrectly charged to the River Road Traffic Islands Project in Fund 8601.

Per our discussions with WDC staff, corrections of the miscoded expenditures noted above were made on February 6, 2005.

Due to the coding errors of the federal expenditures for the River Road Traffic Islands Project, the Grants Management Department was not able to readily determine the total federal expenditures for this project when preparing the Schedule of Expenditures of Federal Awards (SEFA). This resulted in the total federal expenditures reported on the SEFA for this project being understated by \$74,443. In addition, coding errors that go undetected could result in unallowable costs being charged to a federally funded project.

Sufficient internal controls over allowable costs should be in place to ensure that expenditures for federally funded projects are correctly charged and are easily identifiable in the agency’s accounting system.

Recommendation

We recommend that in the future federal expenditures be coded and charged to the fund in which the project is budgeted in order that a federally funded project can easily be identified as such. In addition, we recommend that, at least monthly, the Business Manager or other designee reconcile WDC’s records of federal expenditures to the agency’s accounting system in order to ensure that expenditures have been correctly charged. This reconciliation will allow WDC to make any necessary corrections of errors in a timely manner, as well as to ensure that federally expenditures are correctly reported on the SEFA at year-end.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 3 - FEDERAL AWARD FINDINGS

**04-Metro-19: Metro Waterfront Development Corporation Should Improve
Procedures For Coding Federal Activity In The Financial Accounting System
(Continued)**

Management's Response and Corrective Action Plan

Waterfront Development Corporation (WDC) will prepare monthly reconciliations for each project to ensure that the expenditures recorded in the financial system reconcile back to supplier invoices for the month. WDC will continue to work with Metro Finance to monitor expenditures to ensure proper reflection within the financial system, and adjust any changes in a timely manner.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004**

SECTION 4 - AUDITOR'S REPLY

The purpose of any audit is to provide information for users of the financial statements about the financial condition of the entity being audited. In addition to providing an opinion on the financial statements, auditors have a responsibility to identify errors or weaknesses in internal control and compliance that could materially impact the financial statements or major federal program compliance. The APA is also accountable to taxpayers, and has the additional responsibility to report weaknesses that could pose a risk of current or future errors in financial reporting or weaknesses in financial management. Ultimately, the identification of these issues should promote fair and accurate financial reporting, which is a shared goal of both the auditors and the management of the audit entity. Therefore, any finding identified should be considered in that context and in the spirit in which it is written.

The APA provided its findings to the Metro government for the sole purpose of noting weaknesses and making recommendations for improvement. Our purpose was to identify areas of weakness in preparing the financial statements and with compliance with federal program requirements. In addition, we recommended several steps that could assist in the improvement of the areas noted in our comments. We acknowledge that Metro has made improvement from FY 03 and has added enhanced accounting systems, and additional professional expertise; however, this audit, while recognizing these actions also notes those areas requiring ongoing management action and commitment. Metro government is only two years old and we have been assured that Metro is committed to making these changes for FY 05.

The APA audit team prepared the recommendations as a management tool for assessing the strengths and weaknesses of Metro government. Based on our discussions with Metro government, these recommendations will be utilized as part of an ongoing corrective action plan.

The APA team and Metro government staff reflected the commitment of experienced professionals who have both worked diligently during the merger of two governments to resolve accounting issues.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

| Fiscal Year | Finding Number | Finding | CFDA Number | Questioned Costs | Comments |
|---|-------------------|--|----------------|---------------------|---|
| <u>Reportable Conditions</u> | | | | | |
| <i>(1) Audit findings that have been fully corrected:</i> | | | | | |
| FY 03 | 03-Metro-10 | Segregation Of Duties Over Long-Term Debt Transactions Should Be Implemented | N/A | 0 | Due to improvements, this finding has been downgraded to an other matter comment for FY 04. |
| FY 03 | 03-Metro-11 | Security Of The Use Of Network Passwords In The Cashier System Should Be Improved | N/A | 0 | Corrected in FY 04. |
| FY 03 | 03-Metro-16 | Controls Over Program Coordinators Within The Childhood Lead Poisoning Prevention Program (CLEPP) Should Be Improved | 93.197 | 0 | Corrected in FY 04. |
| FY 03 | 03-Metro-17 | Louisville/Jefferson County Metro Government Should Maintain Accounting Records To Enable Proper Accounting For Fixed Assets Purchased With Federal Funds | Multiple | 0 | Corrected in FY 04. |
| <i>(2) Audit findings not corrected or partially corrected:</i> | | | | | |
| FY 03 | 03-Metro-7 | Adequate Documentation Should Be Maintained To Support Transactions | N/A | 0 | See 04-Metro-10. |
| FY 03 | 03-Metro-8 | Policies And Procedures Should Be Developed For Participation In The Internal Investment Pool | N/A | 0 | See 04-Metro-1. |
| FY 03 | 03-Metro-9 | Louisville/Jefferson County Metro Government Should Strengthen Internal Controls Over Investments By Segregating Duties For The Acquisition And Disposition Of Investments | N/A | 0 | See 04-Metro-3. |
| FY 03 | 03-Metro-12 | Louisville/Jefferson County Metro Government Should Implement An Accounting Policy Requiring All Agencies To Use The Payroll System To Its Fullest Extent | N/A | 0 | See 04-Metro-6. |

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

| Fiscal Year | Finding Number | Finding | CFDA Number | Questioned Costs | Comments |
|----------------|-------------------|---------|----------------|---------------------|----------|
|----------------|-------------------|---------|----------------|---------------------|----------|

Reportable Conditions (Continued)

(2) Audit findings not corrected or partially corrected (Continued):

| | | | | | |
|-------|-------------|---|-----|---|-----------------|
| FY 03 | 03-Metro-13 | Reconciliation Procedures Should Be Developed For Verifying Payroll Information To The General Ledger | N/A | 0 | See 04-Metro-7. |
| FY 03 | 03-Metro-14 | Louisville/Jefferson County Metro Government Should Develop A Records Retention Policy To Maintain Adequate Documentation For Accounting Transactions | N/A | 0 | See 04-Metro-8. |
| FY 03 | 03-Metro-15 | Louisville/Jefferson County Metro Government Should Develop And Implement An Accounting Policy Requiring A Reconciliation Of All Employee Withholding Accounts To The General Ledger System | N/A | 0 | See 04-Metro-7. |

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid:

| | | | | | |
|-------|------------|--|-----|---|---|
| FY 02 | 2002-EDP1 | The Jefferson County Fiscal Court Finance And Administration Department Should Improve Program Modification Procedures | N/A | 0 | No longer valid. Metro implemented a new financial accounting system beginning operations in July 2003. |
| FY 02 | 2002-EDP2 | The Jefferson County Fiscal Court Finance And Administration Department Should Improve General And Application Access | N/A | 0 | No longer valid. Metro implemented a new financial accounting system beginning operations in July 2003. |
| FY 03 | 03-Metro-4 | The Louisville/Jefferson County Metro Government Should Ensure Adequate Mainframe And Network Level Security Procedures Are In Place | N/A | 0 | No longer valid. Metro implemented a new financial accounting system beginning operations in July 2003. |

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

| Fiscal Year | Finding Number | Finding | CFDA Number | Questioned Costs | Comments |
|--|-------------------|---|----------------|---------------------|---|
| <u>Reportable Conditions (Continued)</u> | | | | | |
| <i>(4) Audit finding is no longer valid (Continued):</i> | | | | | |
| FY 03 | 03-Metro-5 | The Louisville/Jefferson County Metro Government Should Ensure Adequate Application Security Procedures Are In Place | N/A | 0 | No longer valid. Metro implemented a new financial accounting system beginning operations in July 2003. |
| FY 03 | 03-Metro-6 | The Louisville/Jefferson County Metro Government Should Consistently Apply Formal Change Management Control Procedures To The Financial System. | N/A | 0 | No longer valid. Metro implemented a new financial accounting system beginning operations in July 2003. |

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004**

| Fiscal Year | Finding Number | Finding | CFDA Number | Questioned Costs | Comments |
|--|-------------------|--|------------------|---------------------|---|
| <u>Material Weaknesses</u> | | | | | |
| <i>(1) Audit findings that have been fully corrected:</i> | | | | | |
| There were no findings for this section. | | | | | |
| <i>(2) Audit findings not corrected or partially corrected:</i> | | | | | |
| FY 02 | 2002-02 | Property Records Should Be Maintained | 16.592 16.710 | \$199,950 | Partially corrected with the implementation of a new financial accounting system in place beginning July 1, 2004. However, no communication between Metro and federal grantor was obtained indicating that the questioned costs are resolved. |
| FY 03 | 03-Metro-1 | Louisville/Jefferson County Metro Government Needs To Implement Strong Management And Internal Controls Over Financial Reporting Process | N/A | 0 | Partially corrected. Enhancement of staff through training and hiring decisions noted. But issues still exist. Classified during FY 04 as a Reportable Condition. See 04-Metro-5; 04-Metro-9. |
| FY 03 | 03-Metro-2 | Internal Controls Over Reporting Capital Assets Should Be Developed And Implemented | N/A | 0 | Classified during FY 04 as a Reportable Condition. See 04-Metro-4. |
| FY 03 | 03-Metro-3 | Immediate Implementation Of Control Procedures Over Cash Management Functions Is Needed, Including The Timely Completion of Bank Reconciliations | N/A | 0 | Classified during FY 04 as a Reportable Condition. See 04-Metro-2. |

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid:

There were no findings for this section.

APPENDIX

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
APPENDIX 1
FOR THE YEAR ENDED JUNE 30, 2004**

List of Metro Organizations audited by other CPA firms that were included in the Metro Single Audit:

| Metro Organization | Contact |
|--|---|
| Capital Projects Corporation | Carpenter, Mountjoy and Bressler 2300 Waterfront Plaza; 325 West Main Louisville, KY 40202 |
| Community Economic Development Corporation | Carpenter, Mountjoy and Bressler 2300 Waterfront Plaza; 325 West Main Louisville, KY 40202 |
| Economic Development Corporation | Carpenter, Mountjoy and Bressler 2300 Waterfront Plaza; 325 West Main Louisville, KY 40202 |
| Firefighters' Pension Fund* | Carpenter, Mountjoy and Bressler 2300 Waterfront Plaza; 325 West Main Louisville, KY 40202 |
| Louisville Science Center, Inc. | Amick & Company 410 West Chestnut Street, Suite 237 Louisville, KY 40202-2342 |
| Louisville Water Company | Crowe, Chizek and Company LLP 101 South 5th East Street, Suite 2430 Louisville, KY 40202-3115 |
| Mass Transit | Carpenter, Mountjoy and Bressler 2300 Waterfront Plaza; 325 West Main Louisville, KY 40202 |
| Metropolitan Sewer District (MSD) | Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251 |

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
APPENDIX 1
FOR THE YEAR ENDED JUNE 30, 2004**

List of Metro Organizations (Continued)

| Metro Organization | Contact |
|---|--|
| Parking Authority of River City, Inc (PARC) | Carpenter, Mountjoy and Bressler 2300 Waterfront Plaza; 325 West Main Louisville, KY 40202 |
| Policemen's Pension Fund* | Carpenter, Mountjoy and Bressler 2300 Waterfront Plaza; 325 West Main Louisville, KY 40202 |
| Revenue Commission | Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251 |
| Riverport Authority | Carpenter, Mountjoy and Bressler 2300 Waterfront Plaza; 325 West Main Louisville, KY 40202 |
| Transit Authority of River City (TARC) | McCauley Nicolas & Company, LLC 702 North Shore Drive, Suite 500 Jeffersonville, IN 47130-3104 |

*Limited procedures were performed. No opinion was given.