

EXECUTIVE SUMMARY

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

For The Fiscal Year Ended
June 30, 2005

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.

EXPENDITURES: Metro organizations expended federal awards as follows:

- \$65,908,000 in cash from 15 federal grantors

SUMMARY OF AUDITOR'S RESULTS:

Financial Statements

We have issued an unqualified opinion on the CAFR. However, we noted twelve (12) financial statement findings, one of which we considered to be a material weakness.

Federal Awards and Schedule of Expenditures of Federal Awards

We have issued an unqualified opinion on Metro's compliance with program requirements for its major federal awards. In addition, we have issued an unqualified opinion on the Schedule of Expenditures of Federal Awards (SEFA). We noted six (6) federal award findings, none of which are material weaknesses. Our audit identified a total of \$774,220 in questioned costs related to one federal program.

DESCRIPTIONS OF MATERIAL WEAKNESSES:

- Louisville Metro Should Follow Required Procurement Policies In Obtaining Third Party Administrators And Should Obtain Written Contracts For Its Self-Insured Health Plans

GENERAL TOPICS OF REPORTABLE CONDITIONS:

- Reconciliation of health care claims payments and verification of claimants.
- Cash and investment pool participation.
- Adequate documentation and proper authorizations.
- Compilation of the CAFR and SEFA.
- Development of a disaster recovery plan and improving general technology controls.
- Internal controls and compliance over major federal programs.



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

May 22, 2006

The Honorable 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, 2005. 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 05, the threshold for auditing federal programs was \$1,977,240.

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 Fiscal Year Ended
June 30, 2005**



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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2005

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, 2005.

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, 2005 (FY 05), 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, 2005
(CONTINUED)**

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for FY 04, as well as any previous findings that have not been resolved, are reported in the Summary Schedule of Prior Audit Findings for FY 05.

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 05 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.

List Of Abbreviations/Acronyms Used In This Report

AAHC	African-American Heritage Center
ACH	Automatic Clearing House
AIDS	Acquired Immunodeficiency Syndrome
AOC	Kentucky Administrative Office of the Courts
APA	Auditor of Public Accounts
CAFR	Comprehensive Annual Financial Report
CAP	Community Action Partnership
CDBG	Community Development Block Grant
CEPP	Chemical Emergency Preparedness and Prevention
CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
DBA	Database Administrator
DOJ	U.S. Department of Justice
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2005
(CONTINUED)**

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

GASB	Governmental Accounting Standards Board
HHS	U.S. Department of Health and Human Services
HIV	Human Immunodeficiency Virus
HOME	HOME Investment Partnership Program
HR	Human Resources
HUD	U.S. Department of Housing and Urban Development
INC	Incorporated
ISTEA	Intermodal Surface Transportation Efficiency Act
IT	Information Technology
KD&A	Knowledge, Development, and Application
KY	Kentucky
KHC	Kentucky Housing Corporation
KTC	Kentucky Transportation Cabinet
LeAP	Louisville e-Financial Application Program
LMHCD	Louisville Metro Housing and Community Development
LSC	Louisville Science Center
Metro	Louisville/Jefferson County Metro Government
NA	Not Applicable
NT	New Technology
NUF	Network User Forms
OMB	Office of Management and Budget
PAF	PeopleSoft Access Forms
RFP	Request for Proposal
SA	System Administrator
SEFA	Schedule of Expenditures of Federal Awards
SF	Short Form
SQL	Structured Query Language
TMG	The Mardrian Group, Inc.
TPA	Third Party Administrator
U.S.	United States
WHI	Walgreens Health Initiative
WIA	Workforce Investment Act

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

CFDA #	Program Title	Pass Through Number	Expenditures		Provided to Subrecipient
			Cash	Noncash	
<u>U.S. Department of Agriculture</u>					
Passed Through From Kentucky Education Cabinet:					
10.555	National School Lunch Program	56275999	\$ 66,375	\$	\$
Passed Through From Kentucky Cabinet for Health and Family Services:					
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Multiple	1,840,454		500
10.559	Summer Food Service Program for Children	056-W45-999-SU	589,982		
10.675	Urban and Community Forestry Program	MOA4525246	19,978		
Passed Through From Kentuckiana Regional Planning and Development Agency:					
10.570	Nutrition Services Incentive	OAS-M-03119179	278,035		
Total U.S. Department of Agriculture			\$ 2,794,824	\$	\$ 500
<u>U.S. Department of Commerce</u>					
Direct Programs:					
11.307	Economic Adjustment Assistance		\$ 598,000	\$	\$
Total U.S. Department of Commerce			\$ 598,000	\$	\$
<u>U.S. Department of Defense</u>					
Direct Programs:					
12.NA	Division of the Navy - Guard Services Contract		\$ 148,119	\$	\$
Total U.S. Department of Defense			\$ 148,119	\$	\$
<u>U.S. Department of Housing and Urban Development</u>					
Direct Programs:					
CDBG - Entitlement and (HUD-Administered) Small Cities Cluster					
14.218	Community Development Block Grants/Entitlement Grants		\$ 15,722,231	\$	\$ 4,156,411
14.219	Community Development Block Grant/Small Cities Program		105,000		
14.231	Emergency Shelter Grants Program		608,892		552,892
14.235	Supportive Housing Program		50,700		
14.238	Shelter Plus Care		1,202,077		
14.239	HOME Investment Partnerships Program		5,070,574		3,644,476
14.241	Housing Opportunities for Persons with AIDS		557,973		732,355
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing		1,195,413		
Passed Through From Kentucky Housing Corporation:					
14.235	Supportive Housing Program	Various	69,474		
Passed Through From Housing Authority of Louisville:					
14.850	Public and Indian Housing	NA	853,709		
14.871	Section 8 Housing Choice Vouchers	KY131VO			
Total U.S. Department of Housing and Urban Development			\$ 25,436,043	\$	\$ 9,086,134

See the 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, 2005
(Continued)**

<u>CFDA #</u>	<u>Program Title</u>	<u>Pass Through Number</u>	<u>Expenditures</u>		<u>Provided to Subrecipient</u>
			<u>Cash</u>	<u>Noncash</u>	
U.S. Department of the Interior					
Direct Programs:					
15.904	Historic Preservation Fund Grants-in-Aid		\$	\$	\$
15.919	Urban Park and Recreation Recovery Program	21-CTY-2090-			
15.929	Save America's Treasures	21-03-ML-1368			
Total U.S. Department of the Interior			\$	\$	\$
U.S. Department of Justice					
Direct Programs:					
16.004	Law Enforcement Assistance - Narcotics and Dangerous Drugs Training		\$ 92,733	\$	\$
16.305	Law Enforcement Assistance-Uniform Crime Reports		27,428		
16.527	Supervised Visitation, Safe Havens for Children		155,454		88,981
16.528	Training Grants to Stop Abuse and Sexual Assault of Older Individuals or Individuals with Disabilities		43,576		2,435
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		74,287		
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders		503,893		
16.592	Local Law Enforcement Block Grants Program		717,105		
16.595	Executive Office for Weed and Seed		101,946		
16.607	Bullet Proof Vest Partnership Program		813		
16.609	Community Prosecution and Project Safe Neighborhoods		307,865		230,011
16.710	Public Safety Partnership and Community Policing Grants		531,352		
Passed through the Kentucky Justice and Public Safety Cabinet:					
16.523	Juvenile Accountability Incentive Block Grant	Various	84,125		
16.549	Part E_State Challenge Activities	Various	14,890		390
16.579	Byrne Formula Grant Program	Various	1,323,612		
16.588	Violence Against Women Formula Grants	Various	162,002		
16.595	Executive Office for Weed and Seed	Various	301,979		
16.710	Public Safety Partnership Policing Grants	2003SHWX0147	413,515		
Passed through the Kentucky Administrative Office of the Courts:					
16.579	Byrne Formula Grant Program	1200-025-CM00- E257-0040101Z	12,589		
Total U.S. Department of Justice			\$ 4,869,164	\$	\$ 321,817
U.S. Department of Labor					
Direct Programs:					
17.263	Youth Opportunity Grants		\$ 3,813,901	\$	\$ 2,468,389
Passed Through the Kentucky Education Cabinet:					
WIA Cluster					
17.258	WIA Adult Program	M-02184747	834,771		828,463
17.259	WIA Youth Activities	M-02184747	942,263		452,363
17.260	WIA Dislocated Workers	Various	2,549,166		656,525
17.267	WIA Incentive Grants Section 503 Grants to States	Various	80,453		
Total U.S. Department of Labor			\$ 8,220,554	\$	\$ 4,405,740

See the 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, 2005
(Continued)**

CFDA #	Program Title	Pass Through Number	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Transportation					
Passed Through Kentucky Transportation Cabinet:					
20.205	Highway Planning and Construction	Various	\$ 4,455,727	\$	\$
20.219	Recreational Trails Program	Various	1,295		
20.215	Highway Training and Education	Various	570,027		
Passed Through Kentucky Justice and Public Safety Cabinet:					
Highway Safety Cluster					
20.600	State and Community Highway Safety	Various	98,245		
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	LSF-593-L1-04	4,161		
20.604	Safety Incentive Grants for Use of Seatbelts	Various			
20.217	Motor Carrier Safety Grant	M-05042774	48,272		
Total U.S. Department of Transportation			\$ 5,177,727	\$	\$
U.S. Equal Employment Opportunity Commission					
Direct Programs:					
30.002	Employment Discrimination - State & Local Fair Employment Practices Agency Contracts		\$ 73,500	\$	\$
Total U.S. Equal Employment Opportunity Commission			\$ 73,500	\$	\$
U.S. Institute of Museum and Library Services					
Direct Programs:					
45.312	National Leadership Grants		\$	\$	\$
Passed Through the Kentucky Department for Libraries and Archives:					
45.310	State Library Program	04-1D1A93	120,380		
Total U.S. Institute of Museum and Library Services			\$ 120,380	\$	\$
U.S. Environmental Protection Agency					
Direct Programs:					
66.001	Air Pollution Control Program Support		\$ 646,015	\$	\$
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act		216,200		
66.606	Surveys, Studies, Investigations and Special Purpose Grants		25,637		
66.810	Chemical Emergency Preparedness and Prevention (CEPP) Technical Assistance Grants Program		3,717		
Passed Through the Kentucky Cabinet for Health and Family Services:					
66.032	State Indoor Radon Grants	Various	15,508		
66.818	Brownfields Assessment & Cleanup Cooperative Agreements	Various	351,255		
Total U.S. Environmental Protection Agency			\$ 1,258,332	\$	\$

See the 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, 2005
(Continued)**

CFDA #	Program Title	Pass Through Number	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Energy					
Passed Through the Kentucky Cabinet for Environmental and Public Protection:					
81.042	Weatherization Assistance for Low-Income Persons	M-03121254 Subcontract# 24	\$ 608,610	\$	\$
Total U.S. Department of Energy			\$ 608,610	\$	\$
U.S. Department of Health and Human Services					
Direct Programs:					
93.008	Medical Reserve Corps Small Grant Program		\$ 53,438	\$	\$
93.048	Special Programs for the Aging Title IV and Title II Discretionary Projects		45,084		
93.230	Consolidated Knowledge Development and Application(KD&A) Program		5,661		
93.243	Substance Abuse and Mental Health Services_Projects of Regional and National Significance		497,055		
93.283	Centers for Disease Control and Prevention Investigations_Investigations and Technical Assistance		359,640		
93.597	Grants To States for Access and Visitation Programs		21,840		21,840
93.926	Healthy Start Initiative		1,221,335		10,030
Passed Through the Kentucky Cabinet for Health and Family Services:					
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	Various	75,214		
93.197	Childhood Lead Poisoning Prevention Projects-Sate and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	Various	327,434		6,378
93.217	Family Planning - Services	2FPHPA040612-32-00 (SJBH)	586,200		458,459
93.235	Abstinence Education Program	Various	14,390		14,390
93.268	Immunization Grants	Various	133,072		
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	Various	527,250		429,652
93.399	Cancer Control	SJKG	118,011		98,657
93.568	Low-Income Home Energy Assistance	Various	2,458,273		
93.569	Community Services Block Grant	Various	1,589,131		
93.767	State Children's Insurance Program	Various	37,854		
93.778	Medial Assistance Program	0309450Z & 0309460Z (SAAG)	35,858		
93.940	HIV Prevention Activities - Health Department Based	SDGH	120,587		
93.944	Human Immunodeficiency Virus (HIV) /Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	Various	42,426		
93.945	Assistance Programs for Chronic Disease Prevention and Control	Various	68,173		
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Various	494,616		
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants	Various	146,630		118,864
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance System	U32/CCU422701-01 (SJKC)	16,980		7,137
93.991	Preventive Health and Health Services Block Grant	20023-B1-KY-PRVS (SJKB)	255,295		1,596
93.994	Maternal and Child Health Services Block Grant to the States	Various	633,825		45,729

See the 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, 2005
(Continued)**

CFDA #	Program Title	Pass Through Number	Expenditures		Provided to Subrecipient
			Cash	Noncash	
U.S. Department of Health and Human Services (Continued)					
Passed Through the Kentuckiana Regional Planning and Development Agency:					
93.045	Special Programs for the Aging, Title III, Part C- Nutrition Services	Various	1,228,669		121,982
93.556	Promoting Safe and Stable Families	M-01136028- LJCHD			
Passed Through the Kentucky Commission for Children with Special Health Care Needs:					
93.994	Maternal and Child Health Services Block Grant to the States	M-03110753	70,181		
93.NA	KY Early Intervention	NA			
Total U.S. Department of Health and Human Services			\$ 11,184,122	\$	\$ 1,334,714
U.S. Corporation for National and Community Service					
Direct Programs:					
94.002	Retired Senior Volunteer Program		\$ 73,216	\$	\$
94.011	Foster Grandparent Program		420,655		
Total U.S. Corporation for National and Community Service			\$ 493,871	\$	\$
U.S. Department of Homeland Security					
Direct Programs:					
97.044	Assistance to Firefighters Grant		\$	\$	\$
97.071	Metropolitan Medical Response System Program		6,211		
Passed Through Metro United Way					
83.523	Emergency Food and Shelter National Board Program	NA	155,673		
Passed Through the Kentucky Department of Military Affairs:					
97.004	State Domestic Preparedness Equipment Support Program	Various	3,242,778		
97.008	Urban Area Security Initiative	M-04547290	808,791		
97.039	Hazardous Mitigation Grant	M-03317490	54,875		
97.051	State and Local All Hazards Emergency Operations Planning	M-03055032	11,433		
97.053	Citizens Corps	M-03052269	159		
97.054	Community Emergency Response Team	M-03053041	9,495		
97.055	Interoperable Communications Equipment	2003INWX0007	635,339		
Total U.S. Department of Homeland Security			\$ 4,924,754	\$	\$
Total All Metro Agencies			\$ 65,908,000		\$ 15,148,905

See the accompanying Notes to the Schedule of Expenditures of Federal Awards

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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, 2005

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 light gray shading.

Note 2 - Type A Programs

Type A programs for Metro mean any program for which total expenditures of federal awards exceeded \$1,977,240 for FY 05. Metro had the following programs that met the Type A program definition for FY 05, 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	\$ 15,722,231
14.219	Community Development Block Grant/ Small Cities Program	105,000
14.239	HOME Investment Partnerships Program	5,070,574
17.263	Youth Opportunity Grants	3,813,901

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

Note 2 - Type A Programs (Continued)

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
WIA Cluster:		
17.258	WIA Adult Program	\$ 834,771
17.259	WIA Youth Activities	942,263
17.260	WIA Dislocated Workers	2,549,166
20.205	Highway Planning and Construction	4,455,727
93.568	Low-Income Home Energy Assistance	2,458,273
97.004	State Domestic Preparedness Equipment Support Program	3,242,778
Total Type A Programs		\$ 39,194,684

Note 3 - Zero Expenditure Programs

These programs had no expenditures during FY 05. The zero expenditure programs included programs with non-expenditure activity reported during the year, such as receipts or accounts receivable.

Note 4 - 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, 2005
(Continued)**

Note 4 - Programs From Multiple Funding Sources (Continued)

<u>CFDA #</u>	<u>Program</u>	<u>Received From</u>	<u>Direct/Pass Through (Grantor #)</u>	<u>Amount</u>
14.235	Supportive Housing Program	HUD	Direct	\$ 50,700
		KY Housing Corporation	Pass Through (KY36B020-1013)	69,474
	CFDA 14.235			\$ 120,174
16.579	Byrne Formula Grant Program	KY Justice Cabinet	Pass Through (Multiple)	\$ 1,323,612
		KY Administrative Office of the Courts	Pass Through (1200-025-CM00-E257-0040101Z)	12,589
	CFDA 16.579			\$ 1,336,201
16.595	Executive Office for Weed and Seed	DOJ	Direct	\$ 101,946
		KY Justice	Pass Through (Multiple)	301,979
	CFDA 16.595			\$ 403,925
93.283	Centers for Disease Control and Prevention Investigations and Technical Assistance	HHS	Direct	\$ 359,640
		KY Cabinet for Health and Family Services	Pass Through (Multiple)	527,250
	CFDA 93.283			\$ 886,890
93.994	Maternal and Child Health Services Block Grant to the States	KY Cabinet for Health and Family Services	Pass Through (Multiple)	\$ 633,825
		KY Commission for Children with Special Health Care Needs	Pass Through (M-03110753)	70,181
	CFDA 93.994			\$ 704,006

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

Note 5 - Subsequent Events

Community Development Block Grant (CFDA 14.218)

Louisville Metro Housing and Community Development was notified of an audit underway by the Kentucky Transportation Cabinet (KTC) of the African American Heritage Center, a subrecipient of the CDBG program. The results of this audit were not available at the time of this report.

In a letter dated July 29, 2005, the U.S. Department of Housing and Urban Development notified Louisville Metro Housing and Community Development of disallowed costs in the amount of \$37,060 related to its CDBG Investor's Program for failure to meet the national objective under 24 CFR 570.208. These disallowed costs were reimbursed to the agency's line of credit via wire transfer on August 29, 2005.

REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

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

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

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 (Metro) as of and for the year ended June 30, 2005, which collectively comprise Metro's basic financial statements and have issued our report thereon dated December 21, 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. However, the financial statements of the Louisville Water Company were not audited in accordance with Government Auditing Standards.

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 05-Metro-1, 05-Metro-2, 05-Metro-3, 05-Metro-4, 05-Metro-5, 05-Metro-6, 05-Metro-7, 05-Metro-8, 05-Metro-9, 05-Metro-10, 05-Metro-11, and 05-Metro-12.



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
(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 considered item 05-Metro-1 to be a material weakness. 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and described in the accompanying schedule of findings and questioned costs as item 05-Metro-1.

This report is intended solely for the information and use of the management, members of the Metro Council, 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

Audit Fieldwork Completed -
December 21, 2005



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

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

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

Compliance

We have audited the compliance of the Louisville/Jefferson County Metro Government (Metro) 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, 2005.

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)

In our opinion, 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, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 05-Metro-13, 05-Metro-14, and 05-Metro-15.

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 05-Metro-13, 05-Metro-14, 05-Metro-15, 05-Metro-16, 05-Metro-17, and 05-Metro-18.

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 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, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving internal control over compliance, which we have communicated to management.

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)

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, 2005, and have issued our report thereon dated December 21, 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 the 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

Audit Fieldwork Completed -
Schedule of Expenditures of Federal Awards
December 21, 2005

Federal Compliance
March 15, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

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, 2005.

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 instance of noncompliance that is required to be reported under *Government Auditing Standards*. This noncompliance is identified as finding numbered 05-Metro-1.

Internal Control Over Financial Reporting: Our consideration of Metro's internal control over financial reporting disclosed twelve (12) reportable conditions, indicated as findings numbered 05-Metro-1 through 05-Metro-12. We believe the finding numbered 05-Metro-1 is a material weakness.

Federal Awards and Schedule of Expenditures of Federal Awards

Compliance: We issued an unqualified opinion on Metro's compliance with the requirements applicable to each of its major federal programs. The results of our auditing procedures disclosed three (3) instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133. These noncompliances are identified as findings numbered 05-Metro-13 through 05-Metro-15. We do not believe any of the instances of noncompliance are material.

Internal Control Over Compliance: Our consideration of the Metro's internal control over compliance disclosed six (6) reportable conditions, identified as findings 05-Metro-13 through 05-Metro-18. We do not believe that any of the reportable conditions are material weaknesses.

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, 2005**

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	\$15,722,231
14.219	Community Development Block Grant/ Small Cities Program	105,000
14.239	HOME Investment Partnerships Program	5,070,574
17.263	Youth Opportunity Grants	3,813,901
WIA Cluster:		
17.258	WIA Adult Program	834,771
17.259	WIA Youth Activities	942,263
17.26	WIA Dislocated Workers	2,549,166
20.205	Highway Planning and Construction	4,455,727
93.568	Low-Income Home Energy Assistance	2,458,273
97.004	State Domestic Preparedness Equipment Support Program	3,242,778
Total Type A Programs		\$39,194,684

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 \$1,977,240.

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, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS
*Material Weaknesses Relating to Internal Controls and/or
Instances of Noncompliance*

05-Metro-1: Louisville Metro Should Follow Required Procurement Policies In Obtaining Third Party Administrators And Should Obtain Written Contracts For Its Self-Insured Health Plans

During our testing of the Metro Government's Self-Insured Health Plans, we noted that for FY 05 the government did not properly procure contracts with its third party administrators (TPAs) to provide administrative services of health and pharmaceutical claims processing and payments. We requested documentation evidencing issuance of a request for proposal (RFP), soliciting bids to provide administrative services for plan years (calendar years) 2004 and 2005 as required by Metro's Purchasing Policies for competitive negotiations. Metro Human Resources (HR) has documentation of a plan year 2004 proposal from Humana, and an Anthem letter of intent to provide a quote for plan year 2004; however, no formal RFP was released by Louisville Metro to solicit proposals for plan year 2004, or for plan year 2005. Information obtained from Metro indicated that the RFP from plan year 2003 was relied on for these subsequent periods, even though the contracts for plan year 2003 were for fully insured benefits, not self-insured plans.

We also noted for the plan year 2005, the Metro Government worked with a healthcare benefits consultant (J.R. Katz) to negotiate contract terms with the three health benefits program management groups. The use of a consultant for procurement of the health benefits contracts is not included in Metro Government's Purchasing Policies. Even though the use of consultants would not be restricted under Metro's Purchasing Policies, all agents working on behalf of the government should adhere to its adopted purchasing policies and regulations.

Since the inception of Metro's self-insured health plan, there has been no properly executed (signed and dated by both parties), written contract between Louisville Metro Government and Humana. Both parties, however, have conducted business in accordance with the original calendar year 2004 contract terms, with the exception of the pharmacy claims. We were provided copies of e-mail correspondence between Metro Human Resources, J.R. Katz, Humana, and Walgreens Health Initiatives (WHI), indicating the pharmaceutical plan would be administered by WHI effective January 1, 2005. The correspondence includes a discussion of the WHI formulary services plan, outlining the cost structure for plan year 2005. The contract we received was not properly executed until November 30, 2005, when signed by WHI Vice President. Louisville Metro's Director of Human Resources, William Hornig, signed the contract on November 4, 2005. Therefore, there was no duly executed contract for formulary services during the last six months of fiscal year 2005.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-1: Louisville Metro Should Follow Required Procurement Policies In Obtaining Third Party Administrators And Should Obtain Written Contracts For Its Self-Insured Health Plans (Continued)

Failure to follow the Metro Government's Purchasing Policies, which adopted the state's Model Procurement Code, in establishing the self-insured health benefits contracts constitutes a material non-compliance and internal control weakness. In addition, the failure to have properly executed self-insured health plan contracts, signed and dated by both parties, is a major internal control weakness, which could compromise the government's legal position and threaten the welfare of its enrolled members.

The "Summary of Purchasing Policies," Section I, Purchasing Authority, part A. Overview, paragraph two states: The Director of Purchasing is appointed by the Metro Mayor and is responsible for the following:

1. The purchase of (or authorization to purchase) all equipment, supplies, and services required by Metro Government when purchased through the price quote, competitive sealed bidding process, competitive negotiation process, or by single source designation.
2. Adhering to sound purchasing policies that will result in economical procurement for the Metro Government under open, fair, and competitive conditions.
3. Adhering to state statutes and administrative policies pertaining to purchasing.
4. Establishing standards and specifications for materials and supplies, where practical.
5. Maintaining contact with suppliers pertaining to the issuing of purchase orders, bid procedures, quality of goods and / or services, and delivery.
6. Purchasing shall comply with KRS section 45A.365, 45A.395, 45A.430, 45A.435, 45A.440, 45A.445, 45A.450, 45A.455 and 45A.460. Purchasing shall also comply with 45A.180-45A.200, if applicable.

Each person making a purchase is responsible for following the purchasing policy.

The "Summary of Purchasing Policies," Section II, *Purchasing Limits*, part B. Purchases Exceeding \$10,000 states:

All purchases exceeding \$10,000 **must** be made using one of the following four methods: competitive bid, competitive negotiation, noncompetitive negotiation, or by use of a state price contract." Based on information obtained from Metro, the TPA agreements were acquired through competitive negotiation purchases.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-1: Louisville Metro Should Follow Required Procurement Policies In Obtaining Third Party Administrators And Should Obtain Written Contracts For Its Self-Insured Health Plans (Continued)

Furthermore, the “Summary of Purchasing Policies,” Appendix A, *Detailed Competitive Negotiations Procedures*, require the following:

- A. Purchases using competitive negotiation require written Findings to the Director of Purchasing specifying one of the following three:
1. Specifications cannot be made sufficiently specific to permit an award on the basis of either the lowest bid price or the lowest evaluated bid price.
 2. Sealed bidding is inappropriate because the available sources of supply are limited, the time and place of performance cannot be determined in advance, the price is regulated by law, or a fixed price contract is not applicable; or
 3. The bid prices received through sealed bidding are unresponsive or unreasonable as to all or part of the requirements, or are identical or appear to have been the result of collusion.
 - a. However, each responsive bidder shall be notified of the intention to negotiate, be given a reasonable opportunity to negotiate, and the negotiated price shall be lower than the lowest rejected bid by a responsive bidder.

In addition, Appendix A, *Detailed Competitive Negotiations Procedures*, provide specific requirements for the development of the Request for Proposals (RFP), RFP advertising, discussions with potential suppliers under competitive negotiations, the evaluation process, and the awarding of a contract.

Appendix B, *Detailed List of Contract Requirements For Competitive and Non Competitive Negotiation*, requires that contracts be drafted by the County Attorney unless the County Attorney designates the authority to another responsible party. All contracts must receive approval of the County Attorney as to form and Risk Management as to compliance with the insurance requirements. Certificates of insurance should be obtained by the department and submitted with the contract. An original fully executed contract must be filed in Finance in order to issue payment. In addition, contracts are required to contain the signature of the Department Director and the Contractor.

Sound internal controls suggest that the terms of contracts between Louisville Metro Government and its third party administrators be written in understandable language to prevent misinterpretations and errors, as well as, signed and dated by both parties to the contract.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-1: Louisville Metro Should Follow Required Procurement Policies In Obtaining Third Party Administrators And Should Obtain Written Contracts For Its Self-Insured Health Plans (Continued)

Recommendation

In addition, we recommend that all terms for the provision of administrative services of health insurance claims processing and payments by third party administrators be in a formal written agreement (contract); and that all parties to the contract properly execute the contract, as evidenced by signing and dating the agreement.

Finally, Louisville Metro Government should maintain all procurement and contract documentation.

Management's Response and Corrective Action Plan

The Louisville Metro Government understands the importance of sound procurement procedures and the importance of following these procedures in accordance with our Purchasing Policies. It is, however, important to note that because of the complexity of health-insurance related service, such services may be procured under state statute through non-competitive negotiation. Nonetheless, Metro Government did procure these health-related insurance services through a competitive process typical in the health insurance industry – by using a knowledgeable healthcare benefits consultant. When using consultants, we do expect them to adhere to Metro Government policies regarding procurement on its behalf, and we will continue to monitor those expectations in our future dealings with them. Furthermore, Metro Government's Purchasing Policies shall be revised to recognize the use of a healthcare benefits consultants in implementing Metro Government's health-insurance program in the future.

We recognize that there was no formally signed contract with Humana during the period under audit and we are working with Humana to rectify that and ensure that it does not happen in the future. Nonetheless, we believe that there was a valid agreement between Metro Government and Humana that both parties understood and honored. Metro Government has been advised by our legal counsel that both parties having received the benefits of the health care service agreements would be held legally obligated to each other for services rendered and received.

It is also the policy of the Louisville Metro Government to maintain all procurement and contract documentation. We will continue to focus on maintaining appropriate procurement and contract documentation.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS
*Reportable Conditions Relating to Internal Controls and/or
Instances of Noncompliance*

05-Metro-2: Louisville Metro Should Reconcile Health Care Claims Payments To Supporting Claims Detail And Should Implement Procedures To Verify Claimants

As part of our testing of the Metro Government's self-insured health plan, we requested supporting documentation for Humana claims expenditures posted to the LeAP financial system. However, there was no claims/accounting detail available to support the amounts posted to the LeAP system. Humana does not invoice the Metro Government for the claims it has paid on behalf of the Metro Government. The contract between Humana and Metro Human Resources (HR) specifies Humana may draw funds for reimbursement of health insurance claims it has processed and paid on behalf of the Metro Government, as well as Humana's fees for administrative services. The amounts drawn on Metro's bank account may occur daily; however, Humana provides no supporting claims detail for those draws. Humana does provide a weekly check register report to HR Benefits, which includes all provider names, amounts, paid, and dates paid; however, the check register does not include Metro member/claimant information. In addition, we noted that payments reported by Humana check registers do not agree individually or in total to amounts drawn daily by Humana.

The Metro Government has no internal control procedure requiring the reconciliation of daily cash draws by Humana to the weekly claims payment detail provided by Humana. Specifically, HR Benefits is unaware of the amounts drawn by Humana. In addition, HR Benefits cannot verify that Humana claims payments to health providers were for benefit of Metro members/claimants. Furthermore, Metro Finance - Treasury posts the Humana draws to the LeAP system ("Clearing - Humana") based upon the ACH bank report; however, Finance has no procedure requiring the matching of Humana draws/payments to Humana claims detail.

Louisville Metro Government's failure to reconcile timely Humana claims payments/draws to the claims payment detailed records constitutes a significant internal control weakness. Failure to reconcile the claims payments to the claims detail inhibits Metro Government's ability to verify the accuracy of Humana claims payments to health providers, as well as verify that payments were on behalf of enrolled Metro members. In addition, failure to reconcile the claims detail to the general ledger may permit unauthorized payments to go undetected.

Sound internal controls suggest that timely reconciliations of the health insurance claims payments to the claims detail be performed. In addition, periodic review of claims payments to health providers should be performed to determine that payments were for benefit of enrolled Louisville Metro members.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-2: Louisville Metro Should Reconcile Health Care Claims Payments To Supporting Claims Detail And Should Implement Procedures To Verify Claimants (Continued)

Recommendation

We recommend the Metro Government develop and implement an accounting policy requiring formal reconciliations of all healthcare claims payments to the detail claims data provided by the healthcare claims administrative service providers. The reconciliations should be done in a timely manner whereby the results can be addressed, corrections made as necessary, and general ledger adjusted accordingly. Metro's Human Resources (Benefits) staff should collect necessary claims data from the administrative service providers sufficient for determination of propriety of claims payments to health providers.

We further recommend that necessary resources be allocated to perform sufficient procedures to ensure propriety of healthcare information. Benefits staff should regularly perform limited scope audits of the administrative service providers' claims payments to health providers in order to verify payments benefited eligible Metro Government subscribers/claimants.

Management's Response and Corrective Action Plan

Humana does provide the Louisville Metro Government with a weekly listing of claims that have been processed by Humana. Metro Finance and Human Resources departments have been working together for several months to formalize and implement policies over the reconciliation and monitoring of healthcare claims. Reconciliations will be prepared monthly by Human Resources, comparing the weekly claims draws to Humana claims listings and Humana monthly account reconciliation. Additionally, a task force group has been developed by Metro to review procedures over the propriety of all healthcare information.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**05-Metro-3: Louisville Metro Finance Should Improve Its Financial Statement
Compilation Procedures**

Our audit of the Louisville Metro CAFR identified several errors and/or control weaknesses impacting the compilation of the financial statements. These weaknesses are as follows:

- The Louisville Science Center (LSC) did not identify itself as a component unit of Metro Government in its separately issued audit report. Metro appropriately included the LSC in its CAFR, but did not sufficiently communicate reporting requirements prior to the issuance of the LSC audit.
- The Louisville Science Center and the Louisville Water Company did not implement GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, in their separately issued audit reports since they follow not-for-profit reporting standards as opposed to governmental accounting reporting standards. Metro Finance presented disclosures related to these entities in the CAFR based on classification information obtained from management, but the information was not subject to audit. Also, the Metropolitan Sewer District, did implement GASB Statement No. 40, but information was presented in Metro's CAFR that was classified differently than reported in the MSD's separately issued report. These changes were also not subject to audit.
- The Metro CAFR's note disclosure related to GASB 40, *Deposits and Investment Risk Disclosures*, did not disclose the presence of a concentration of credit risk, which the audit found to exist. GASB requires that the government disclose all investment concentrations greater than 5% in any single issuer.
- The Metro CAFR did not contain two required disclosures – conduit debt and commitments of construction contracts. The conduit debt disclosure was included in previous years for Metro, but was excluded in the current year although evidence suggested that a large amount of conduit debt is outstanding for the government. Also, the auditors were aware of significant commitments outstanding at June 30, 2005, related to ongoing projects of the government, thereby making this disclosure applicable as well.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-3: Louisville Metro Finance Should Improve Its Financial Statement Compilation Procedures (Continued)

- As noted in the prior year, Metro continued to utilize “on top” adjustments in the preparation of its CAFR. The use of such adjustments, which are not recorded in the financial accounting system, are understandable in instances of one-time classification adjustments. However, Metro Finance used such unbooked adjustments to reflect changes in the financial statements that have an impact on fund balance (such as allowance for uncollectible accounts).
- Review of Metro’s allocation of indirect costs on the statement of activities determined that \$7,876,040 in direct charges for judgments and changes in compensated absences were allocated as indirect charges. Rather than charge these costs directly to the responsible functions, the expense was allocated to all functions based on each function’s percentage of net expense to total expenses.
- Metro Finance netted advertising expense against Real Property Tax revenues in the amount of \$306,500.
- Metro Finance was unable to agree the Special Revenue Fund federal accounts receivable and federal unearned revenue amounts to the ending balances per the government’s final Schedule of Expenditures of Federal Awards worksheet. Although these differences were below the fund’s tolerable error, the differences could not be reconciled.

The types of the accounting and reporting errors identified, although determined to be immaterial for FY 05, could lead to material misstatements of the Metro CAFR in the future.

A government entity needs an internal control system that ensures 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.

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.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

**05-Metro-3: Louisville Metro Finance Should Improve Its Financial Statement
Compilation Procedures (Continued)**

Recommendation

We recommend the following in order to address the weaknesses identified above:

- Metro Finance should maintain direct communication with component units, keeping them informed of reporting requirements that impact the Metro CAFR, including the implementation of new accounting standards. Also, since the APA relies on the opinion of other auditors for component units and other select funds, Metro Finance should incorporate audited information exactly as presented in the separately issued reports. If audited statements are inconsistent with the treatment or basis presented in the Metro CAFR, the reclassification required for presentation in Metro's CAFR should be included in the entity's audit, therefore ensuring that all information presented in the Metro's CAFR is subject to audit.
- Metro Finance should take steps to ensure that all applicable disclosures are included in the CAFR. The auditors noted these weaknesses during the draft review, which is late in the audit process. Therefore in order to ensure time to obtain the necessary information, Metro Finance should be proactive in its approach and identify all disclosures applicable to the government prior to year-end.
- Metro Finance should eliminate the use of on-top adjustments for any activity that impacts the balance of a fund. These unbooked adjustments should be limited to reclassifications or adjustments between fund financial statements and government wide financial statements.
- Metro Finance should only allocate indirect charges across the various functions, as required by GAAP. Also, expenditures should not be netted against revenues in the financial statements. All expenditures attributed to the government should be reported at the required level of presentation.
- All federal accounts receivable and federal unearned revenues balances should be supported by subsidiary information (such as that reported in the SEFA worksheet) and reflect actual amounts receivable and actual unearned revenues. The accounts receivable and unearned revenue amounts existing at June 30, 2005, should be reconciled between the financial accounting system, the SEFA worksheet, and the federal program's requests for reimbursement and/or cash transaction reports to identify discrepancies.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

**05-Metro-3: Louisville Metro Finance Should Improve Its Financial Statement
Compilation Procedures (Continued)**

Management's Response and Corrective Action Plan

The Louisville Metro Government will formally communicate audit requirements with component units in the future. Metro did address some of the concerns from our auditors regarding GASB No. 40 implementation and the other audit requirements of the Louisville Science Center, and will continue working directly with component units in the future. The Metro CAFR did disclose information regarding our concentration of credit risk.

It is a major priority of Metro to completely and accurately disclose all required financial information within our CAFR each year. Accounting staff annually attend national training to ensure we are cognizant of all applicable accounting pronouncements and prepared to implement any changes that occur annually within our industry. We prepared at great length to appropriately implement GASB 40, and will continue to prepare for the implementation of future GASB pronouncements. The 'on top' adjustments made by Metro are adjustments for financial statement presentation and are reflected within our report workpapers.

We do not track compensated absences on a functional level, and therefore, allocate those charges based on the ratio of total expenses (payroll related expenses being the largest) per function to total overall expenses.

Finally, Metro Government did reconcile (within an immaterial amount) the federal accounts receivable and federal unearned revenue amounts per the financial statements and the general ledger to the SEFA. These reconciliations appeared appropriate, and Metro will continue to monitor and improve reconciliation of these receivable and unearned amounts annually.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-4: Louisville Metro Should Improve Grants Accounting And Compilation Procedures For The SEFA

As part of our review of Metro's Schedule of Expenditures of Federal Award (SEFA) and the underlying grant activities and balances, we noted the following errors:

- Three programs listed did not have CFDA numbers and were not listed in the CFDA catalog. In at least one of these cases, the grant title appears to be a state-funded program rather than a federal program.
- Differences were noted in tying federal activity to supporting documentation. Specifically:
 - The federal expenditure calculation erroneously excluded program income for several grants. These uncorrected errors understated federal expenditures by approximately \$447,882 in the final SEFA.
 - Program income was understated by approximately \$333,628 in two grants.
- Footing errors were noted in the prior year, and continue to be noted in the current year. Federal expenditures were in error by \$68,251 due to footing errors. This error has been corrected in the final SEFA.
- We also noted coding inconsistencies in LeAP, Metro's financial accounting system. These included instances related to grants of the U.S. Department of Housing and Urban Development and the U.S. Department of Transportation, in which federal expenditures and/or federal accounts receivable were coded to nonfederal accounts in the general fund. These errors make it difficult to determine whether the federal grant reporting on the SEFA is complete due to the inability to identify all federal funds recorded in other accounts or funds.
- We were unable to determine the appropriateness of federal deferred revenue and federal accounts receivable related to grants administered through the Metro Department of Housing and Community Development. It appears that beginning balances of specific grants are incorrect, therefore creating inaccurate receivable/deferral balances at year-end.

The failure to appropriately identify correct CFDA numbers and federal programs makes it more difficult for federal agencies and other users to identify specific programs, and potentially creates difficulty in identifying major federal programs for audit.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-4: Louisville Metro Should Improve Grants Accounting And Compilation Procedures For The SEFA (Continued)

The calculation errors understate federal expenditures in total on the Metro's FY 05 SEFA. Even though these errors were immaterial to the SEFA as a whole, the impact on the federal expenditure totals of individual federal programs may be more significant.

The reporting inconsistencies create difficulties in verifying that all federal funds expended are properly reported on the SEFA, and that Metro's financial statements accurately reflect the proper federal receivable and/or deferral balances. Ending accounts receivable balances should easily trace to outstanding requests for reimbursements, and unearned revenue is questionable for reimbursement type grants.

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

Although we noted improvement in the SEFA compilation in FY 05, we recommend that Metro Grants Management take additional measures to improve its compilation procedures, specifically related to properly identifying, accounting, and reporting all federal programs. Additionally, we recommend that steps be taken to ensure that the use of program income is properly reported as a federal expenditure, whereas matching expenses should be excluded from the federal expenditure total.

We further recommend that all federal grants administered through the Metro Department of Housing and Community Development be confirmed with the U.S. Department of Housing and Urban Development in order to determine the proper balances of these grants. The accounting for these grants should reflect actual receipts and expenditures that easily trace to the accounting system, and appropriate beginning and ending receivable balances which trace to requests for reimbursement and/or drawdown.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-4: Louisville Metro Should Improve Grants Accounting And Compilation Procedures For The SEFA (Continued)

Recommendation (Continued)

Unearned revenue balances are rare in reimbursement programs and those calculations should be questioned/investigated by Metro Grants Management when they occur.

Management's Response and Corrective Action Plan

The Louisville Metro Government has placed great importance on compilation of SEFA information, and we will continue to improve our process for compiling this information annually. It is important to note also, that all financial information reflected in the SEFA is reviewed and appropriately supported before finalization of this schedule, and reconciled back to the general ledger (within an immaterial amount). The Metro Housing department will continue working with HUD to ensure accurate reflection of financial information.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-5: Louisville Metro Should Develop Written Policies Related To Its Internal Cash Pool

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

In FY 05, the Metro Government determined a participation level based upon a percent of total year-end cash and investments to year-end fund totals. Without changing these investment totals, the amount of investments is spread across all participating funds. Because this accounting treatment did not consider balances and/or participation throughout the year, we could not test the appropriateness of 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.

Failure to properly allocate funds in the 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, as well as investment earnings, that belongs to each fund.

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.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

**05-Metro-5: Louisville Metro Should Develop Written Policies Related To Its
Internal Cash Pool (Continued)**

Recommendation

We recommend the government create written procedures for accounting 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 that encompasses the fund's actual participation level and earnings, not just year-end balances.

Management's Response and Corrective Action Plan

Metro Finance has developed and will implement formal policies surrounding the pooling of investments in our internal investment pool. These policies address the procedures for determining each fund's participation levels within the pool that encompasses the fund's actual participation level and earnings. Additionally, the policies formalize the historical practice this government has consistently followed to allocate investment balances to funds. These practices are consistent with GASB required treatment and disclosure for cash and investments, and our calculation for this allocation is well documented for audit review.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-6: Louisville Metro Should Improve Internal Controls Over Payroll Records

During our testing of the Metro Government's payroll system we selected a sample of employee time records and related payroll registers for various periods during FY 05 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. We noted nine (9) time reports had not been signed by the employee. In addition, five (5) timesheets had no supervisor's signature authorization.

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.

Although the Metro Government began its implementation of an electronic time and attendance system in FY 05, agencies are still required to maintain the proper employee timekeeping source documents in order to support the electronic input into the electronic time and attendance system. 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.

Recommendation

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 does enforce strong internal controls over timekeeping, adjustments, and authorization procedures. Metro Finance places great importance on the integrity of our payroll process, and have policies and procedures in place over this cycle. Timecard completion and authorization, however, is the responsibility of departments.

During fiscal year 2006, Metro will be implementing electronic time and attendance systems for many departments, but manual authorization will still be required. Additionally, Metro will be transitioning in the future to a pay for time worked payroll schedule, which will reduce the number of corrections and exceptions to timekeeping records.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-7: Louisville Metro Should Develop A Formal Disaster Recovery Plan

As noted during the prior audit, the Louisville/Jefferson County Metro Government (Metro), Office of Information Technology, did not have a formal disaster recovery plan in effect during the fiscal year to ensure continuing processing capabilities for their network or their Human Resource Management (PeopleSoft) and Oracle (LeAP) Financials Systems. Adequate backup and recovery procedures had been established for both systems to ensure backup of critical system and data files, and insurance coverage had been obtained to cover computer hardware. However, a formal disaster recovery plan was not developed, and system recoverability has not been formally tested.

Not having a disaster recovery plan increased the possibility of loss due to excessive recovery time and costs, and disruption of the processing capabilities.

Good management practices minimize risks through planning. The goal of a disaster recovery plan is to improve preparedness for system recoverability at minimal cost using available resources.

Recommendation

We recommend a formal disaster recovery plan be developed for Metro that will ensure proper backup and recovery capabilities for their network and all critical applications they manage, especially the PeopleSoft and LEAP applications. This recovery plan should address recovery concerns such as:

- Disaster definitions
- Identification of emergency personnel and phone numbers
- Identification of critical data and software
- Explanation of backup procedures (or reference to backup procedures noted in other manuals)
- Listing of vendor contacts with whom agreements have been made for obtaining emergency equipment replacement or for providing hot sites for recovery
- Specific procedures to be followed for business recovery during various levels of disaster or downtime
- Backup or manual procedures to be followed for business continuity in the case of extended disruption other than disasters
- Training for emergency personnel on the recovery plan to ensure they are aware of their responsibilities.
- Testing schedule and procedures for the recovery plan.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

**05-Metro-7: Louisville Metro Should Develop A Formal Disaster Recovery Plan
(Continued)**

Management's Response and Corrective Action Plan

Metro Government has developed a Continuation of Operations and Continuation of Government group that is currently reviewing Metro's business continuity plan. This initiative includes all of the recovery concerns listed in the recommendations above. In previous years, a plan had not been developed due to lack of funding.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-8: Louisville Metro Should Consistently Apply Formal Change Management Control Procedures For The Government's Financial And Human Resources Applications

We examined the change management control procedures implemented by the Louisville/Jefferson County Metro Government (Metro) for the Human Resource Management (PeopleSoft) and Oracle Financials System (LeAP) applications. Our examination revealed that established change control procedures are not being consistently applied.

Metro has established a Change Management Process Outline that provides the framework for controlling all changes to the PeopleSoft and LeAP applications. In order to actuate the change process, the Metro Technology Services Project Change Request Form must be completed and submitted to the Help Desk. The request is then saved in the Track-It program, and a Track-It work order number is assigned to each request. The change requests are reviewed during weekly Change Control Meetings conducted by the Enterprise Application Support group within the Metro Office of Technology. The minutes are then recorded in the Change Control Meeting Agendas. All completed changes are included on the change request log maintained by the Enterprise Application Support group.

We examined all Track-It work orders on the change request log that were associated with the LeAP and PeopleSoft applications to ensure compliance with the established change management process. Twenty-two (22) of the 24 work orders were traced to the associated weekly Change Control Meeting Agendas indicating they had been monitored. Of the remaining two work orders, one was not found within the agenda for the corresponding week, and the agenda for the other work order was not located. Both of these changes involved the LeAP application and no explanation could be provided.

Further discussions and examination revealed that there are changes being made within the PeopleSoft application that are not being reported to Enterprise Application Support via the formalized Change Management Process Outline. Consequently, there are no application changes on the change request log that have been initiated by PeopleSoft Administration. Instead, only the Windows operating system and related server updates and LeAP application changes are included in the change management process. Discussions with PeopleSoft administration revealed that changes at the application-level within PeopleSoft are discussed and approved through a separate process involving bi-weekly meetings of a PeopleSoft team. This process is not formally established as part of the Change Management Process Outline. Further, this means that not all responsible personnel within the Enterprise Application Support group may be aware of the changes being made to PeopleSoft.

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05-Metro-8: Louisville Metro Should Consistently Apply Formal Change Management Control Procedures For The Government's Financial And Human Resources Applications (Continued)

Additionally, some application-level PeopleSoft change requests are being accepted through e-mail and are not being recorded in the Track-It program by work order numbers. The changes accepted through e-mail are assigned separate tracking numbers developed by PeopleSoft administration and are included in the separate authorization process controlled by PeopleSoft administration. Again, this process is not formally established as part of the approved Change Management Process Outline.

Failure to properly apply and track approved change control procedures increases the risk that incorrect or unauthorized changes could be made to critical applications and moved into the live production environment and could adversely affect system processing results.

Program modification control procedures should be established and consistently applied in order to ensure that only appropriately authorized changes to critical applications are made and implemented within the production environment, help to ensure adequate documentation exists for all changes, and ensure that the changes made are acceptable by the user departments.

Recommendation

We recommend that all changes to the PeopleSoft application be incorporated into the established centralized change control process (The Change Management Process Outline). This would require that all PeopleSoft change requests be assigned a work order number and be recorded within the Track-It program. The PeopleSoft application changes previously recorded separately should be merged into the centralized Change Management Process Outline facilitated by the Enterprise Application Support group since any changes to PeopleSoft could adversely impact the stability of the application.

Additionally, Louisville/Jefferson County Metro Government should ensure that all work orders and Change Control Meeting Agendas are maintained and documented throughout the authorization process.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-8: Louisville Metro Should Consistently Apply Formal Change Management Control Procedures For The Government's Financial And Human Resources Applications (Continued)

Management's Response and Corrective Action Plan

Categories will be created in Metro Technology's Track-it program to accommodate application changes in both LeAP and PeopleSoft. Both the LeAP and PeopleSoft teams have been informed that all changes should be submitted through Track-it and reviewed in the Change Management Process. The PeopleSoft process that is maintained separately will be merged with the centralized Change Management Process Outline facilitated by the Enterprise Application Support group.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-9: Louisville Metro Should Adhere To Established Procedures Governing System Access Requests For The PeopleSoft Human Resources System And LeAP Financial Accounting System

The Louisville/Jefferson County Metro Government (Metro) did not adhere to established procedures concerning logical security governing the Human Resource Management (PeopleSoft) and Oracle (LeAP) Financials Systems. Specifically, these procedures require each employee to complete an access request form to ensure that metro employees are provided sufficient access to these mission critical systems. Based on job responsibilities, Metro employees must complete a user access form and obtain approval by the requestor's Director. Our review reveals that all user access forms were not maintained on file and most of those on file were not completely authorized.

We selected a sample of PeopleSoft Access Forms (PAF) for twenty-nine current PeopleSoft users. Of the PAF forms selected, seventeen access forms were not on file. Ten of the forms were on file but were not properly authorized. Only two PAF forms were complete and without exceptions. Further, we selected a sample of twenty-nine Oracle

Financial User Access forms for proper documentation of LeAP access approval. Of the sample selected, four of the forms were not on file. Twenty-three of the forms were on file but were not properly authorized. Only two Oracle Security Access Request forms were completed properly without exception.

Allowing users the ability to access information without proper authorization may subject the processing of data to errors and/or omissions. Unauthorized users may compromise the integrity of data processed through PeopleSoft and Oracle Systems.

The foundation of logical security is access control, which refers to how the system is being accessed and by whom. Formal policies provide a security framework to educate management and users of their security responsibilities. Consistent application of formalized security policy and procedures provides continuity for implementation and sets the tone of management concern for strong system controls. To help ensure strong security and the integrity of PeopleSoft and Oracle systems, it is necessary to follow a formal policy identifying management and user responsibilities concerning human resources and financial data. Further, the level of system access granted to users should be restricted to only areas necessary for an employee to perform assigned job duties. It is ultimately the responsibility of Metro to ensure that access to critical system files is reasonable.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-9: Louisville Metro Should Adhere To Established Procedures Governing System Access Requests For The PeopleSoft Human Resources System And LeAP Financial Accounting System (Continued)

Recommendation

We recommend that the Metro consistently follow the established procedures to administer the logical security surrounding the PeopleSoft and Oracle applications. Security access request forms should be completed on all new users and should include all necessary information and authorizations.

Management's Response and Corrective Action Plan

Administrators of the PeopleSoft and LeAP applications, Human Resources and Finance, are responsible for monitoring and maintaining the appropriate access request forms. Metro will continue to focus on the proper management of access request forms and will review the possibility of access forms being submitted electronically with workflow and signature capabilities. The majority of the exceptions noted over LeAP were not signed off once completed, and those exceptions have all been corrected.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-10: Louisville Metro Should Improve Application Security Of The PeopleSoft System

The Louisville/Jefferson County Metro Government (Metro) did not adequately secure access to the System Administrator (SA) account within the Human Resource Management (PeopleSoft) System.

Our audit revealed that five non-DBA users log into the PeopleSoft database directly with the SA account. This level of access is unnecessary and jeopardizes the integrity of the human resource data. One of these users was the Payroll Manager who used this same SA account to access the PeopleSoft database directly for running queries and verifying payroll data. This provided the Payroll Manager full access to PeopleSoft tables and data. This is a critical misuse of the SA account and circumvents standard security controls that are established through normal user accounts to segregate payroll and personnel administration duties.

The SA account is not a normal user account and should be restricted for use only by those authorized in the Database Administrator (DBA) group. All users of the SA account have the ability to add, change or delete members to the group without the DBA's knowledge and unnecessary write permissions are granted on production data. The SA account or equivalent would have access to base tables and underlying data within the application.

Indirect logins to the PeopleSoft database are facilitated through SQL Enterprise Manager and Query Analyzer as well as Microsoft Access software for reporting purposes. There are 17 normal database user accounts available for report queries that should have been used to properly access the PeopleSoft data for report purposes.

Further, our audit determined that formal policies and procedures were not implemented governing the administration of the PeopleSoft system. Therefore, procedures were not implemented for creating and maintaining security event logs for the application, and use of the SA account could not be sufficiently tracked. It was also noted that the password policy established for the SA account allows creation of a weak password and does not conform to the established password policy standards. All SA account users share this weak password.

Due to this security weakness, computer controls provided little or no assurance that transactions or updates to the PeopleSoft database were properly authorized, accurate, or complete. Allowing normal users the ability to access personnel information without proper authorization may compromise the integrity of data processed through the PeopleSoft System. Further, the failure to create and monitor security event logs made it impossible to determine whether security violations occurred. Further, there were inadequate processes in place to compensate for the weakness that resulted from providing

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05-Metro-10: Louisville Metro Should Improve Application Security Of The PeopleSoft System (Continued)

the Payroll Manager full access to PeopleSoft data through use of the SA account. Sufficient system resources do not exist that would allow the DBA to determine exactly what transactions might have been performed during the use of the SA account.

Formal policies for governing the administration of the PeopleSoft system would provide a security framework to educate management and power users of their security responsibilities. To help ensure strong security and the integrity of PeopleSoft system data, a formal application level security policy is needed identifying management and user responsibilities concerning use of this application. Further, the level of system access granted to users should be restricted on the basis of assigned job duties and should be restricted in a way to help ensure a proper segregation of duties. Specifically, the SA account should be restricted to only the DBA group. Employing strong segregation of duty controls decreases the opportunity for errors and/or omissions to system files and critical programs. Finally, payroll and personnel duties within PeopleSoft should be properly segregated.

Recommendation

We recommend that Metro develop and implement a formal application level security policy to govern the administration of the PeopleSoft system and associated tools. Procedures should ensure that only the DBA group has access to add and remove database users. Management should follow the best practices approach to ensure that users are forced to login to direct connection database tools, as in PeopleSoft, via the assigned NT login and password. Efforts should be made to further redistribute incompatible access/duties among capable staff members to deter against the misuse of these two systems. If incompatible duties cannot be further distributed then management should ensure that adequate compensating controls, either manual or automated, exist and that those processes are adequately monitored. At a minimum, access to PeopleSoft production data through the SA account by the Payroll Manager and other users not in the DBA group should be eliminated.

Finally, the passwords for all power user accounts including the SA account should be reviewed in order to strengthen controls for access and use of production data.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-10: Louisville Metro Should Improve Application Security Of The PeopleSoft System (Continued)

Management's Response and Corrective Action Plan

Metro Technology has already developed and implemented unique accounts to allow users to run SQLs without accessing the System Administrator (SA) account. The Payroll manager and the IT PeopleSoft team no longer have administrator rights to the PeopleSoft system. Metro will review current practices and begin developing formal policy to govern the administration of the PeopleSoft system. These new policies will ensure that only the DBA group will have access to add and remove database users.

Already, Metro Technology is utilizing access forms, but more detailed directions can be developed to continue monitoring the administration of the PeopleSoft system and associated tools. Metro IT management has been following best practices to ensure that users are forced to login to direct connection database tools via the assigned NT login and password.

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SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-11: Louisville Metro Should Improve The Application Security Of The LeAP Financial Accounting System

Our examination of security controls established by the Louisville/Jefferson County Metro Government (Metro) for their Oracle (LeAP) Financial system revealed that inadequate segregation of duties exists concerning the establishment of user roles and permissions within this system. Although there has been an effort by Metro management during the year to address incompatible responsibilities, our audit revealed various functions and abilities for certain users within the system still exists that provided an inadequate segregation of duties.

During our examination it was noted that three system administrators within the LeAP system have crossover responsibilities in order to complete the required job functions and serve as backup for other positions. Two of the three employees are part of Finance department management. Additionally, the Accounting Manager is responsible for performing the daily bank reconciliation and is able to enter journal entries and post to the general ledger, duties that should not be performed by the same position. Likewise, there are staff accountants with the ability to key journal entries and post to the General Ledger.

Metro management recognizes that internal controls could be improved by removing incompatible responsibilities from accounting user's profiles. However, until available staffing levels are increased management has chosen to rely on manual controls in place and is willing to assume the risks for inadequate segregation of duties among staff. Therefore, management contends that compensating controls are in place to safeguard against unintentional errors or user incompetence. Concerning the Accounting Manager duties, Management points again to the fact that manual authentication processes apply. However, we contend that all these processes should be properly distributed to other personnel.

Adequate segregation of duties should be established through the use of application security to ensure that user roles are consistent with their job responsibilities and system users do not have access to files or data that is not required to perform their job responsibilities. Incompatible job requirements should be allocated among an adequate number of staff members to provide for an adequate segregation of duties. Small organizations that cannot easily segregate job duties should implement compensatory controls to ensure data is accurate and complete and only properly tested and authorized data is moved into production. Employing strong segregation of duty controls decreases the opportunity for errors and/or omissions to system files and critical programs.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-11: Louisville Metro Should Improve The Application Security Of The LeAP Financial Accounting System (Continued)

Recommendation

We recommend that Metro management revisit their review of the system access provided by roles and permissions within LeAP to identify job tasks that currently provide for an inadequate segregation of duties. Efforts should be made to further redistribute incompatible access/duties among capable staff members to deter against the misuse of this system. If incompatible duties cannot be further distributed then management should ensure that adequate compensating controls, either manual or automated, exist and that those processes are adequately monitored.

Management's Response and Corrective Action Plan

Metro management is currently reviewing system access provided by roles and permissions within LeAP to identify job tasks that currently provide for an inadequate segregation of duties. Responsibilities for the three system administrators within Metro Finance have already been modified to eliminate some duties that overlapped, and some of the administration of LeAP will transition to Metro Technology in September 2005. It is important to note that the individuals within the Finance department with administrative responsibilities have only recently changed their duties within the Finance department that created any overlap of duties.

Metro Finance reorganized the divisional responsibility of Management late in fiscal year 2005, which created the overlapping responsibilities referred to above. Additionally, the Metro merger in 2003 and the implementation of the LeAP system for the last three years, generated the need for certain Finance personnel to have administrative access in the financial system in order to effectively engage this new system. Upon implementation and development completion during fiscal years 2005 and 2006, these responsibilities will be transferred to the Technology department and outlined in the transition plan to be developed by Finance and Technology.

New personnel in Technology will temporarily handle the administration functions of LeAP, until the transition plan is developed and implemented. This transition plan will address long-term personnel needs for the IT department to administer the LeAP system, and will move the administration of this system out of the Finance department.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-11: Louisville Metro Should Improve The Application Security Of The LeAP Financial Accounting System (Continued)

Management's Response and Corrective Action Plan (Continued)

An additional comment was made regarding the specific responsibilities of the Accounting Manager over daily bank reconciliations and entering and posting journal entries to the general ledger. Compensating controls are in place over this process (described below), and there is not one person who prepares, enters, and posts transactions to the general ledger.

Three people review every journal entry entered into the general ledger. One individual prepares the journal entry, a separate individual in accounting reviews that entry and a third person actually enters the entry. While individuals within accounting have the capability to enter and post the entry, the entry has already been reviewed by three different people, and transactions are posted automatically by the financial system daily. The responsibility of reconciling bank accounts is one that requires an individual to prepare the reconciliation and another to review the reconciliation. Any adjustments needed as a result of the reconciliation would go through the normal journal entry process in which three different individuals review that entry.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

05-Metro-12: Louisville Metro Should Improve Network Logical Security

The Louisville/Jefferson County Metro Government (Metro) did not adhere to established procedures concerning logical security governing the Metro computer network. Specifically, these procedures require each employee to complete a Network User Forms/Template form (NUF) to ensure that metro employees are provided sufficient access to perform job functions. Based on job responsibilities, Metro employees must complete a network user access form and obtain approval by the requestor's Director. Further, new employees must sign an Acceptable Use Policy statement acknowledging their understanding of their rights and responsibilities concerning network access. Our examination revealed that Network User Forms were not maintained on file or documented in email format documenting authorization for the tested user access to the network. Further, all users did not have acceptable use Policy statements on file.

We selected a sample of 39 users from a listing of 4,800 current network user accounts and requested documented authorization granting system access and a signed Acceptable Use Policy statement. Discussions with the Security Administrator revealed that they had no system to track user system requests and authorizations prior to December 2001. Further, the Department of Information Technology does not have any system access authorization documentation for any former county government users that had access to the network prior to the merger in January 2003. These two problems affected twenty-eight of the users we tested so there were no network user forms available for those users. For the remaining eleven users, only four network user forms were available. Further, only fifteen of the thirty-nine tested accounts had signed Acceptable Use Policy statements on file.

Further, discussions revealed that there are currently no procedures established to verify on a periodic basis the continued propriety of network user access. We understand, however, that Metro is in the process of automating distribution and acceptance of security policies that are to become officially effective July 1, 2005. Any users that do not respond to this distribution will have their user accounts disabled until they comply with a response.

Due to the merger between the City and County governments, and the extensive period that many users have had network access, the Metro Security administrator does not have an adequate method to ensure all network users have proper authorization for network access. This increases the likelihood that unauthorized users could access the Metro network and go unnoticed by the Security Administrator. If unauthorized users gain access to the network and go unnoticed the integrity of data processed through Metro Network System could be compromised.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**05-Metro-12: Louisville Metro Should Improve Network Logical Security
(Continued)**

The foundation of logical security is access control, which refers to how the system is being accessed and by whom. Formal policies provide a security framework to educate management and users of their security responsibilities. Consistent application of formalized security policy and procedures provides continuity for implementation and sets the tone of management concern for strong system controls. To help ensure strong security and the integrity of the Metro network, it is necessary to follow a formal policy identifying management and user responsibilities concerning human resources and financial data. It is ultimately the responsibility of Metro to ensure that access to critical system files is reasonable. Procedures should include a methodology for verifying the propriety of network user access on a periodic basis.

Recommendation

We recommend that the Metro management ensure the central Security Administrator have the power to enforce Metro IT security policies in order to have a centralized control over Metro system security. This includes authority to allow the Security Administrator to require other Department IT shops to verify and be held accountable for the network users employed by their departments. An important step in securing the Metro network is establishing a baseline set of acceptable authorized network users. We recommend that the Security Administrator generate a current list of active users and that those lists be submitted to the responsible areas. Those responsible departments/areas should be required to review the list of users within their departments and submit documented certification back to the Security Administrators. Those certifications should be maintained as needed for audit trail purposes. Any future new users should be forced to comply with established security procedures documenting appropriate access authorizations. Alternatively, some other method might be devised to work in conjunction with the upcoming automated security policy distribution.

Finally, a process should be developed similar to the listing recommendation noted above to ensure a review is performed periodically to ensure network user access remains appropriate.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

**05-Metro-12: Louisville Metro Should Improve Network Logical Security
(Continued)**

Management's Response and Corrective Action Plan

Metro does monthly audits of all domain accounts to ensure they are required and active, and this process was explained and illustrated to the APA during their testing. All accounts are reviewed for activity over the latest thirty-day time period. If there is no activity during that time then the accounts are disabled, and after another 30 days the accounts are then deleted. During the IT audit review an exchange upgrade was in process, and this review process was temporarily on hold at the time.

Metro Technology is currently developing a list of all authorized network users. This list will be distributed to each department, along with the new user policies. Departments will review these lists for accuracy and as the policies are distributed there will be an electronic signature on file for all Metro network users. Failure to comply with this new requirement will result in the respective accounts being disabled.

Metro acknowledges the lack of documentation regarding user access noted by the auditors. The Department of Technology has reviewed these issues and will perform account audits, and new policies designed to address these issues are being developed.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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

05-Metro-13: Louisville Metro Housing and Community Development Should Reimburse Subrecipients Only For Amounts Expended During The Grant Period Of Availability

Federal Program(s): CFDA 20.205 Highway Planning and Construction
 Federal Agency: U.S. Department of Transportation
 Compliance Area: Period of Availability
 Questioned Costs: \$714,919

As part of our audit of the federal program 20.205 - “Highway Planning and Construction” - we reviewed expenditures of the Intermodal Surface Transportation grant (ISTEA). This grant represents a pass through from the Kentucky Transportation Cabinet (KTC) to Louisville Metro’s Housing and Community Development Department (LMHCD), and was passed through to a subrecipient, the African-American Heritage Foundation (AAHF), for the Trolley Barn Rehabilitation project. We reviewed payments made by LMHCD to AAHF to determine that charges to the grant were paid within the period covered by the grant agreement. Even though the grant agreement (contract) was dated October 5, 2004, KTC gave AAHF written approval for reimbursement of eligible expenditures incurred on or after July 20, 2004.

We noted, through our review and discussion with personnel of LMHCD, that AAHC submitted invoices and was reimbursed by LMHCD for expenditures totaling \$714,919.41 which were incurred outside the period of availability. These expenditures are outlined below:

1) Black Baron Construction, Inc.	Work prior to 5/25/04	\$	33,392
2) Black Baron Construction, Inc.	Work prior to 7/13/04		4,718
3) Simplex Grinnell	Work prior to 7/20/04		11,124
4) YKK AP American, Inc.	Work prior to 7/9/04		28,759
5) TMG (The Mardrian Group, Inc.)	Work prior to 7/20/04		423,757
6) TMG (The Mardrian Group, Inc.)	Work prior to 6/20/04		213,169
Total Payments for Work Performed Prior to the Grant Period			<u><u>\$ 714,919</u></u>

It should be noted that invoices #1-3 above were submitted on January 14, 2005 with other invoices for costs that were incurred within the period of availability, all of which totaled \$119,246. Invoice #4 was also submitted on January 14, 2005 in a separate group of invoices, all of which totaled \$160,047. Invoices #5-6 were dated April 22, 2005.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-13: Louisville Metro Housing and Community Development Should Reimburse Subrecipients Only For Amounts Expended During The Grant Period Of Availability (Continued)

Good internal controls dictate that before payments are made to a vendor (or subrecipient in this case), the invoices should be reviewed carefully to determine that the costs were incurred during the period of the contract. This becomes especially important when multiple invoices are submitted together by the subrecipient and cover a period of several months.

LMHCD has procedures in place to review and approve invoices prior to payment. The invoices referred to above were reviewed and approved by LMHCD personnel, apparently without noticing that the invoices were for work performed outside the grant period. We consider this to be an oversight by LMHCD. However, this control weakness resulted in a noncompliance with the period of availability requirement. In addition, reimbursements to AAHF by LMHCD paid outside the grant period resulted in questioned costs of \$714,919.

Recommendation

We recommend that LMHCD strengthen their internal control procedures over the payment of invoices relating to grant expenditures, to ensure that all expenditures occur within the grant period.

Management's Response and Corrective Action Plan

LMHCD will continue to work towards strengthening internal control procedures over payment of invoices related to subrecipient grant expenditures, to ensure that all expenditures occur within the grant period.

Additionally, LMHCD did cooperate, in good faith, with the AAHF and the Kentucky Transportation Cabinet in recognizing amendments to the grant on an informal basis. In the future, we will follow the same procedures that are in place to administer all the federal entitlement grants by requiring that all changes in the terms or conditions of a contract shall be executed in writing, signed by both parties, before such changes will be recognized by LMHCD.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-14: Louisville Metro Housing and Community Development Should Review Subrecipient Requests For Reimbursement For Duplicate Payments

Federal Program(s): CFDA 20.205 Highway Planning and Construction
 Federal Agency: U.S. Department of Transportation
 Compliance Area: Allowable Costs
 Questioned Costs: \$59,301

As part of our audit of the federal program 20.205 - “Highway Planning and Construction” - we reviewed expenditures of the Intermodal Surface Transportation grant (ISTEA). This grant represents a pass through from the Kentucky Transportation Cabinet (KTC) to Louisville Metro’s Housing and Community Development Department (LMHCD), and was passed through to a subrecipient, the African-American Heritage Foundation (AAHF), for the Trolley Barn Rehabilitation project. We reviewed payments made by LMHCD to AAHF to determine that charges to the grant were allowable per the grant agreement.

Through our review and discussion with personnel of LMHCD, four duplicate payments were noted. AAHC submitted a request for reimbursement to LMHCD on January 10, 2005, totaling \$486,032, which included four vendors’ invoices totaling \$59,301. On March 21, 2005, another request for reimbursement, which totaled \$875,383, was submitted that also included these four invoices totaling \$59,301. The invoices are outlined below:

1) Godsey Associates Architects	Invoice dated 10/18/04	\$ 8,000
2) Godsey Associates Architects	Invoice dated 10/26/04	4,125
3) Godsey Associates Architects	Invoice dated 11/4/04	28,841
4) Godsey Associates Architects	Invoice dated 10/18/04	18,335
Total Duplicate Invoices Reimbursed		<u>\$ 59,301</u>

Good internal controls dictate that before payments are made to a vendor (or subrecipient in this case), the invoices should be reviewed carefully to determine that the costs are not only allowable, but that invoices have not been paid previously. This becomes especially important when multiple invoices are submitted together by the subrecipient, which total large amounts and cover a period of several months.

LMHCD has procedures in place to review and approve invoices prior to payment. LMHCD personnel reviewed and approved the four invoices referred to above, apparently without noticing they had already reimbursed AAHF for those four invoices on a previous request for reimbursement. While we consider this to be an oversight by LMHCD, the duplicate payments, totaling \$59,301, resulted in questioned costs of that amount.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-14: Louisville Metro Housing and Community Development Should Review Subrecipient Requests For Reimbursement For Duplicate Payments (Continued)

Recommendation

We recommend that LMHCD strengthen their internal control procedures over the review and payment of invoices relating to grant expenditures to include a review for duplicate payments. This added review, along with procedures already being performed, would assist the agency in ensuring that all expenditures are allowable and may reduce the risk of questioned costs.

Management's Response and Corrective Action Plan

LMHCD understands that this reimbursement issue was inadvertent and not deliberate by AAHF. LMHCD will continue to strengthen related internal controls of reviewing payments to subrecipients.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-15: Louisville Metro Housing And Community Development Should Continue Making Improvements In Its Monitoring Of HOME Subrecipients

Federal Program(s): CFDA 14.239 HOME Partnership Act
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Subrecipient Monitoring
Questioned Costs: \$0

As part of our compliance testing for the HOME program relating to subrecipient monitoring, we requested a list of on-site monitoring visits conducted by Louisville Metro Housing (agency) during FY 05 for the HOME program, from which to select our sample. The HOME program operates on a calendar (program) year (January - December 2005), thus, the agency's compliance with federal requirements would be based upon performance during the calendar year. However, since our audit is on a fiscal year basis (July 2004 - June 2005), it was necessary to consider the agency's compliance with the subrecipient monitoring requirement for 2004 as well as the time period January - June 2005. We determined the following:

The agency was not compliant for 2004 with the subrecipient monitoring requirement, which was addressed in a prior year comment. In addition, no on-site monitoring visits of subrecipients were conducted from January - June 2005. However, we did note that the agency had conducted on-site monitoring visits in July and August 2005 (outside our audit period) for three subrecipients within the HOME program. These three subrecipients represent all HOME subrecipients who are required to be monitored via an on-site visit for the agency's program year 2005.

The failure to monitor subrecipients during calendar year 2004, and the fact that no on-site monitoring visits were conducted during January - June 2005, resulted in a noncompliance with federal requirements during our audit period. However, as noted above, the agency did conduct the required on-site monitoring visits during their 2005 program year, which should result in the agency being compliant with federal monitoring requirements for their program year (2005).

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."

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-15: Louisville Metro Housing And Community Development Should Continue Making Improvements In Its Monitoring Of HOME Subrecipients (Continued)

Recommendation

The Department of Housing has established and implemented procedures for monitoring of subrecipients' compliance with federal regulations. We recommend that the agency continue to adhere to those procedures for the HOME program to ensure that program performance goals are being achieved, appropriate corrective actions are taken when necessary, and to assure compliance with federal requirements.

Management's Response and Corrective Action Plan

Metro Housing and Community Development (LMHCD) developed and implemented, during program year 2005, monitoring procedures. The implementation of these procedures was completed in correlation with the program year, which differs from the Metro fiscal year. LMHCD will continue to implement and review its subrecipient monitoring procedures.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-16: Louisville Metro Housing And Community Development Should Continue To Improve Cash Drawdown Procedures For The HOME Program

Federal Program(s): CFDA 14.239 HOME Partnership Act
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Cash Management
Questioned Costs: \$0

As part of our cash management testing, we reviewed cash draw requests to determine if expenditures occurred prior to the cash draw and if the requests were made timely. While in all instances tested, the expenditure occurred prior to the request for reimbursement, draw requests (requests for reimbursement) were not made timely. For example, there was only one draw made for the period 7/1/04 - 12/31/04 - a request for \$1,600 on 9/10/04. This request related to expenditures in a prior fiscal year (FY 04). No other draws were made until 4/27/05, which were numerous. Additional draws were made in May and June 2005.

Our testing of documents from April - June 2005 indicated that certain draw requests were for expenditures occurring in a prior fiscal year. For instance, one request for reimbursement, with a voucher date of 4/16/05, included expenditures occurring 12/4/03, 5/12/04, and 8/30/04. Another request with a voucher date of 5/26/05 included expenditures occurring 4/14/04 and 4/26/05. The time elapsing from the expenditure to the draw request for the remaining three of six documents tested ranged from one month to four months.

These problems were also addressed in a prior year comment.

The failure to perform timely drawdowns results in expenditures for the HOME program being subsidized for an extended period by the government's own resources, which places an undue burden on Louisville Metro's cash and investment pool and limits cash management and earning potential. In addition, future federal funding awards to Louisville Metro's Department of Housing could be affected.

Proper internal controls over cash management activities dictate that cash draws be performed in a timely manner to minimize the burden on the government's own resources due to the administration of federal programs. This ensures the recipient's performance progress, as well as demonstrates to the federal grantor the necessity of the award.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-16: Louisville Metro Housing And Community Development Should Continue To Improve Cash Drawdown Procedures For The HOME Program (Continued)

Recommendation

We acknowledge that Louisville Metro's Department of Housing has established drawdown procedures and has made strides to implement those procedures towards the end of FY 05. We recommend the agency continue to apply those procedures to ensure timely reimbursement of federal expenditures, and ultimately the timely use of federal funding for the HOME program.

Management's Response and Corrective Action Plan

Metro Housing and Community Development (LMHCD) developed and implemented, during program year 2005, monitoring procedures. The implementation of these procedures was completed in correlation with the program year, which differs from the Metro fiscal year. LMHCD will continue to implement and review its subrecipient monitoring procedures.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-17: Louisville Metro Housing And Community Development Should Continue To Improve Cash Drawdown Procedures 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: Cash Management
Questioned Costs: \$0

As part of our cash management testing, we reviewed cash draw requests to determine if expenditures occurred prior to the cash draw and if the requests were made timely. While in all instances tested, the expenditure occurred prior to the request for reimbursement, draw requests (requests for reimbursement) were not always made timely. For example, in two of the five documents tested, the requests for reimbursement were dated (3/10/05) 16 months after the expenditures occurred (11/14/03 and 11/18/03). Thus, the draw request was for expenditures occurring in a prior fiscal year. In another case, the time elapsing between the expenditure and the draw request was almost four (4) months.

The failure to perform timely drawdowns results in expenditures for the CDBG program being subsidized for an extended period by the government's own resources, which places an undue burden on Louisville Metro's cash and investment pool and limits cash management and earning potential. In addition, future federal funding awards to Louisville Metro's Department of Housing could be affected.

Proper internal controls over cash management activities dictate that cash draws be performed in a timely manner to minimize the burden on the government's own resources due to the administration of federal programs. In addition, 24 CFR 570.902(a) requires an entitlement recipient to use CDBG funds in a timely manner. This ensures the recipient's performance progress, as well as demonstrates to the federal grantor the necessity of the award.

Recommendation

The timeliness of the drawdown of CDBG funds was addressed in a monitoring report prepared by HUD and dated October 27, 2004. Louisville Metro's Department of Housing has been working with HUD during FY 05 to establish drawdown procedures that would ensure the timeliness of draws. We noted in a follow up report by HUD, dated July 1, 2005, the agency, while not fully compliant with drawdown requirements, had made significant improvement.

We recommend that the Department of Housing continue to work with HUD and apply established procedures in order to comply with federal regulations as they relate to the timely use of federal funding for the CDBG program.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-17: Louisville Metro Housing And Community Development Should Continue To Improve Cash Drawdown Procedures For The CDBG Program (Continued)

Management's Response and Corrective Action Plan

Louisville Metro Housing & Community Development (LMHCD) did implement policies and procedures to provide for the timely draw down of federal funds, including CDBG funds, and to identify appropriate program income during fiscal year 2005. Draw downs are current in compliance with those policies and procedures, and will continue to be drawn on a timely basis. An additional position was created during fiscal year 2005 in the Program Management Division of LMHCD to perform draw downs of federal funds, identify and apply program income to the HUD IDIS system, and reconcile all related financial transactions to the general ledger.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-18: Louisville Metro Housing And Community Development Should Continue Making Improvements In The Proper Submission Of The Federal Cash Transaction Reports

Federal Program(s): CFDA 14.218 Community Development Block Grant
Federal Agency: U.S. Department of Housing and Urban Development
Compliance Area: Reporting
Questioned Costs: \$0

During our testing of compliance requirements over Reporting and Program Income, we reviewed the four quarterly SF-272 reports to determine if reports were submitted timely and completed accurately. The SF-272 report for the 1st quarter of FY 05 (7/1/04-9/30/04) was not submitted until 12/28/04. This was over two months past the deadline of 10/21/04. The agency's noncompliance with federal reporting requirements was noted in a prior year comment. In addition, HUD addressed the issue in a monitoring report, dated October 27, 2004.

At the date of the HUD report mentioned above (10/27/04), the SF-272 report for the period 7/1/04-9/30/04 was delinquent and HUD gave an extended deadline of 12/31/04 for the report to be submitted (along with other reports in calendar year 2004). While the Department of Housing met the extended deadline, we consider this a noncompliance as of 10/21/04, the original due date, because the report was already delinquent before HUD granted the extension. We also noted that the 2nd quarter SF-272 report, due on

January 21, 2005 was not submitted until January 28, 2005; however, the Department of Housing requested an extension prior to the deadline and HUD granted the extension until January 31, 2005. Thus, we do not consider the 2nd quarter report to have been filed late.

In addition, we noted that, for the 1st and 2nd quarters of FY 05 (7/1/04-9/30/04 and 10/1/04-12/31/04), the SF-272-A (page 2 of the Federal Cash Transactions Report) did not account for program income when computing net disbursements, per instructions on the form. Program income was an area of concern noted in a follow up report by HUD, dated July 1, 2005, specifically as it relates to the timely receipt of program income. At the time of the follow up report, HUD reported that the Department of Housing was over three months behind in their recording of program income. We also addressed this issue in a prior year comment.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

05-Metro-18: Louisville Metro Housing And Community Development Should Continue Making Improvements In The Proper Submission Of The Federal Cash Transaction Reports (Continued)

Failure to submit the quarterly Federal Cash Transaction Reports (SF-272) timely and accurately inhibits the U.S. Department of Housing and Urban Development (HUD) from monitoring the Department of Housing's cash disbursements, program income, and federal receipts (drawdowns) activities during the reporting period. In addition, failure to submit the quarterly SF-272 reports timely and accurately is a noncompliance with federal requirements relating to financial reporting and program income.

According to 24CFR85.41 (c) (1) & (4), "...the grantee will submit the Standard Form 272...and when necessary, ...Standard Form 272a...." In addition, "...Grantees must submit the report no later than 15 working days following the end of the quarter."

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

Recommendation

Recognizing that the Department of Housing has established procedures for the completion of the Federal Cash Transactions Report, we recommend the agency continue to adhere to their procedures and continue to work with HUD to ensure that reports are filed timely and that program income is accurately recorded.

Management's Response and Corrective Action Plan

Louisville Metro Housing & Community Development (LMHCD) did implement policies and procedures to provide for the timely filing of federal transaction reports and the identification of program income. Additionally, the SF-272 reports were submitted to the Louisville District HUD Office as required during fiscal year 2005. LMHCD will continue to adhere to those procedures to ensure timely filing of reports and appropriate reflection of program income.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

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 FY 04	03-Metro-7 04-Metro-10	Metro Should Maintain Proper Documentation And Improve Procedures For Authorizations Of Financial Transactions	N/A	0	Corrected in FY 05.
FY 03 FY 04	03-Metro-9 04-Metro-3	Metro Should Properly Segregate Investment Duties And Should Require Proper Support Before Approving And Posting Investment Activity	N/A	0	Due to improvements, this finding has been downgraded to an other matter comment for FY 05.
FY 03 FY 04	03-Metro-13 03-Metro-15 04-Metro-7	Metro Should Reconcile Payroll Information To The General Ledger	N/A	0	Corrected in FY 05.
FY 03 FY 04	03-Metro-14 04-Metro-8	Metro Should Improve Record Retention Policies For Payroll	N/A	0	Corrected in FY 05.
FY 03 FY 04	03-Metro-3 04-Metro-2	Metro Should Improve Internal Controls Over Cash Management Activities	N/A	0	Corrected in FY 05.
FY 03 FY 04	03-Metro-2 04-Metro-4	Metro Should Improve Internal Controls Related To Capital Assets	N/A	0	Due to improvements, this finding has been downgraded to an other matter comment for FY 05.
FY 04	04-Metro-9	Metro Should Implement Controls To Improve Planning And Implementation Of New Accounting Requirements	N/A	0	Corrected in FY 05.
FY 04	04-Metro-12	Metro Department of Housing Should Implement Subrecipient Monitoring Procedures For The CDBG And HOME Programs	14.218	0	Due to improvements, the portion of this finding related to CDBG has been downgraded to an other matter comment for FY 05.
FY 04	04-Metro-15	Metro Should Develop And Implement An Indirect Cost Allocation Plan Prior To Charging Indirect Costs To Any Federal Program	14.218	\$400,000	Corrected in FY 05.
FY 04	04-Metro-17	Metro Department Of Housing Should Improve Controls Over Program Income For The HOME Program	14.239	0	Corrected in FY 05.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
<u>Reportable Conditions (Continued)</u>					
<i>(1) Audit findings that have been fully corrected (Continued):</i>					
FY 04	04-Metro-18	Metro Department Of Public Works Should Improve Procedures For Coding Federal Activity In The Financial Accounting System	20.205	0	Corrected in FY 05.
<i>(2) Audit findings not corrected or partially corrected:</i>					
FY 03 FY 04	03-Metro-8 04-Metro-1	Metro Should Develop A Policy To Properly Account For Its Internal Investment Pool	N/A	0	See 05-Metro-5.
FY 03 FY 04	03-Metro-1 04-Metro-5	Metro Finance Should Improve Its Year-End Closing Procedures And Its Process For Compiling The Financial Statements	N/A	0	See 05-Metro-3.
FY 03 FY 04	03-Metro-12 04-Metro-6	Adequate Payroll Records Should Be Maintained	N/A	0	See 05-Metro-6.
FY 04	04-Metro-11	Metro Should Improve Policies And Procedures Related To The SEFA Compilation	N/A	0	See 05-Metro-4.
FY 04	04-Metro-12	Metro Department Of Housing Should Implement Subrecipient Monitoring Procedures For The CDBG And HOME Programs	14.239	0	See 05-Metro-15.
FY 04	04-Metro-13	Metro Department of Housing Should Prepare Federal Cash Transaction Reports As Required For The CDBG Program	14.218	0	See 05-Metro-18.
FY 04	04-Metro-14	Metro Department Of Housing Should Implement Policies And Procedures To Improve Cash Management And Properly Account For And Monitor Program Income	14.218	0	See 05-Metro-17.
FY 04	04-Metro-16	Metro Department Of Housing Should Improve Procedures And Strengthen Internal Controls Over Cash Management Related To The HOME Program	14.239	0	See 05-Metro-16.

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
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Reportable Conditions (Continued)

(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	2002-02	Property Records Should Be Maintained	16.592 16.710	\$199,950	No longer valid. Finding is being removed due to inaction during the past 3 years.
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LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
APPENDIX 1
FOR THE YEAR ENDED JUNE 30, 2005

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

<u>Metro Organization</u>	<u>Contact</u>
Capital Projects Corporation	Crowe, Chizek and Company LLP 101 South 5th Street, Suite 2430 Louisville, KY 40202-3115
Firefighters' Pension Fund *	Crowe, Chizek and Company LLP 101 South 5th Street, Suite 2430 Louisville, KY 40202-3115
Louisville Revenue Commission	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Louisville-Jefferson County Riverport Authority	Crowe, Chizek and Company LLP 101 South 5th Street, Suite 2430 Louisville, KY 40202-3115
Louisville Science Center	Amick & Company 410 West Chestnut Street, Suite 237 Louisville, KY 40202-2342
Louisville Water Company	Crowe, Chizek and Company LLP 101 South 5th Street, Suite 2430 Louisville, KY 40202-3115
Mass Transit Trust Fund	Crowe, Chizek and Company LLP 101 South 5th Street, Suite 2430 Louisville, KY 40202-3115
Metropolitan Sewer District (MSD)	Strothman & Company PSC 1600 Waterfront Plaza Louisville, KY 40202-4251
Parking Authority of River City, Inc. (PARC)	Crowe, Chizek and Company LLP 101 South 5th Street, Suite 2430 Louisville, KY 40202-3115

**LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT
APPENDIX 1
FOR THE YEAR ENDED JUNE 30, 2005
(Continued)**

<u>Metro Organization</u>	<u>Contact</u>
Policemen's Pension Fund *	Crowe, Chizek and Company LLP 101 South 5th Street, Suite 2430 Louisville, KY 40202-3115
Transit Authority of River City (TARC)	McCauley Nicolas & Company LLC 702 North Shore Drive, Suite 500 Jeffersonville, IN 47130-3104

* Agreed upon procedures engagement only. Audit report was not issued.

