

Strothman & Company P S C

Certified Public Accountants & Advisors



Single Audit Reports Under OMB Circular A-133

Louisville/Jefferson County Metro Government

June 30, 2006

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Louisville/Jefferson County Metro Government

June 30, 2006

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**Independent Auditors' 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***

**Independent Auditors' 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**



Honorable Jerry E. Abramson, Mayor and
The Louisville Metro Council

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Louisville/Jefferson County Metro Government ("Metro Government") as of and for the year ended June 30, 2006, which collectively comprise Metro Government's basic financial statements and have issued our report thereon dated December 12, 2006, based on our audit and the reports of other auditors. Several Metro Government agencies were tested for compliance and internal control requirements in accordance with *Government Auditing Standards* by other auditors, whose reports thereon have been furnished to us.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metro Government'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 Government'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 2006-1, 2006-2 and 2006-3.

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, we believe that none of the reportable conditions described above are considered to be a material weakness.

We also noted other matters which we have reported to the management of Metro Government.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Metro Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an 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 2006-1.

This report is intended solely for the information and use of the management, the Mayor, members of the Louisville 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.

STROTSMAN & COMPANY PSC

Louisville, Kentucky
December 12, 2006

**Independent Auditors' 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**

**Independent Auditors' 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**



Honorable Jerry E. Abramson, Mayor and
The Louisville Metro Council

Compliance

We have audited the compliance of the Louisville/Jefferson County Metro Government ("Metro Government") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006.

Metro Government's major federal programs are identified in the Summary of Auditors' 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 Government's management. Our responsibility is to express an opinion on Metro Government'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 Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Metro Government's compliance with those requirements.

In our opinion, Metro Government 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, 2006. 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 2006-4 through 2006-8.

Internal Control Over Compliance

The management of Metro Government 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 Government'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 Government'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 2006-1.

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.

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 Government as of and for the year ended June 30, 2006, and have issued our report thereon dated December 12, 2006, based on our audit and the reports of other auditors. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Metro Government'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 and, in our opinion, is fairly stated, in all material respects, in relation to Metro Government's basic financial statements taken as a whole.

This report is intended solely for the information and use of the management, the Mayor, members of the Louisville 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.

STROTSMAN & COMPANY PSC

Louisville, Kentucky
March 27, 2007, except for the second to last paragraph
for which the date is December 12, 2006

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

<u>CFDA #</u>	<u>Program Title</u>	<u>Pass Through Number</u>	<u>Expenditures Cash</u>	<u>Provided to Subrecipient</u>
<u>U.S. Department of Agriculture</u>				
Passed Through Kentucky Heritage Conservation Fund:				
10.069	Conservation Reserve Program		\$ 77,697	
Passed Through Kentucky Department of Public Health:				
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	Various	2,157,834	\$ 41,587
Passed Through Kentucky Department of Education:				
10.559	Summer Food Service Program for Children	056-W45-999-SU	837,281	
Total U.S. Department of Agriculture			3,072,812	41,587
<u>U.S. Department of Defense</u>				
Direct Programs:				
12.NA	Division of the Navy - Guard Services Contract		136,589	
<u>U.S. Department of Housing and Urban Development</u>				
Direct Programs:				
14.218	Community Development Block Grants / Entitlement Grants		20,965,506	4,602,773
14.219	Community Development Block Grants / Small Cities Program		117,140	
14.231	Emergency Shelter Grants Program		592,865	592,865
14.235	Supportive Housing Program		51,516	
14.238	Shelter Plus Care		1,595,812	
14.239	HOME Investment Partnerships Program		6,231,735	4,854,206
14.241	Housing Opportunities for Persons with AIDS		472,608	337,980
14.246	Community Development Block Grants / Brownfields Economic Development Initiative		71,341	
14.871	Section 8 Housing Choice Vouchers		41,642	
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing		174,853	

Continued

Schedule of Expenditures of Federal Awards--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

<u>CFDA #</u>	<u>Program Title</u>	<u>Pass Through Number</u>	<u>Expenditures Cash</u>	<u>Provided to Subrecipient</u>
	Passed Through Kentucky Housing Corporation:			
14.235	Supportive Housing Program	KY36B30-1010	51,750	
	Passed Through Housing Authority of Louisville:			
14.850	Public and Indian Housing		628,047	
	Total U.S. Department of Housing and Urban Development		30,994,815	10,387,824
	<u>U.S. Department of the Interior</u>			
	Direct Programs:			
15.919	Urban Park and Recreation Recovery Program		700,000	
15.929	Save America's Treasures		165,282	
	Total U.S. Department of the Interior		865,282	
	<u>U.S. Department of Justice</u>			
	Direct Programs:			
16.004	Law Enforcement Assistance - Narcotics and Dangerous Drugs Training		38,863	
16.305	Law Enforcement Assistance - Uniform Crime Reports		47,252	
16.527	Supervised Visitation, Safe Havens for Children		172,176	142,149
16.528	Enhanced Training and Services to End Violence and Abuse of Women Later in Life		65,208	1,244
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		54,186	
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders		203,825	
16.592	Local Law Enforcement Block Grants Program		11,949	
16.595	Community Capacity Development Office - Operation Weed & Seed		85,604	
16.607	Bulletproof Vest Partnership Program		47,547	
16.609	Community Prosecution and Project Safe Neighborhoods		318,544	272,042
16.710	Public Safety Partnership and Community Policing Grant		1,434,272	
16.738	Edward Byrne Memorial Justice Assistance Grant Program		215,129	

Continued

Schedule of Expenditures of Federal Awards--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

<u>CFDA #</u>	<u>Program Title</u>	<u>Pass Through Number</u>	<u>Expenditures Cash</u>	<u>Provided to Subrecipient</u>
Passed Through Kentucky Justice and Public Safety Cabinet:				
16.523	Juvenile Accountability Incentive Block Grant	Various	91,059	
16.540	Juvenile Justice and Delinquency Prevention		27,805	
16.549	Part E - State Challenge Activities	Various	30,362	10,440
16.579	Edward Byrne Memorial Formula Grant Program	Various	474,647	
16.588	Violence Against Women Formula Grants	Various	146,494	
16.710	Public Safety Partnership and Community Policing Grant	Various	485,516	
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	2002 RECX0053(011)(3)	110,487	
Total U.S. Department of Justice			4,060,925	425,875
<u>U.S. Department of Labor</u>				
Direct Programs:				
17.263	Youth Opportunity Grants		255,538	218,382
Passed Through Kentucky Department for Workforce Investment:				
17.245	Trade Adjustment Assistance	Various	259,802	39,415
17.266	Work Incentive Grants	WI-14294-04-60	138,694	133,425
WIA Cluster				
17.258	WIA Adult Program	M-04127689	1,559,582	1,122,480
17.259	WIA Youth Activities	M-04127689	712,798	615,040
17.260	WIA Dislocated Workers	M-04127689	2,952,796	384,263
Total U.S. Department of Labor			5,879,210	2,513,005
<u>U.S. Department of Transportation</u>				
Passed Through Kentucky Transportation Cabinet:				
20.205	Highway Planning and Construction	Various	3,763,055	
20.215	Highway Training and Education		686,036	
20.219	Recreational Trails Program	M-02143152	41,250	

Continued

Schedule of Expenditures of Federal Awards--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

<u>CFDA #</u>	<u>Program Title</u>	<u>Pass Through Number</u>	<u>Expenditures Cash</u>	<u>Provided to Subrecipient</u>
Passed Through Kentucky Justice Cabinet: Highway Safety Cluster				
20.600	State and Community Highway Safety	Various	112,751	
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	LSF-641-L1-06	20,000	
Passed Through Kentuckiana Regional Planning and Development Agency (KIPDA):				
20.505	Federal Transit - Metropolitan Planning Grants		<u>254,603</u>	<u> </u>
Total U.S. Department of Transportation			4,877,695	
<u>U.S. Equal Employment Opportunity Commission</u>				
Direct Programs:				
30.002	Employment Discrimination - State and Local Fair Employment Practices Agency Contracts		41,270	
<u>U.S. Institute of Museum and Library Services</u>				
Direct Programs:				
45.310	Grants to States		129,670	
<u>U.S. Environmental Protection Agency</u>				
Direct Programs:				
66.001	Air Pollution Control Program Support		1,275,336	
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act		162,510	
66.610	Surveys, Studies, Investigations and Special Purpose Grants within the Office of the Administrator		1,454,620	
66.810	Chemical Emergency Preparedness and Prevention (CEPP) Technical Assistance Grants Program		26,405	
Passed Through Kentucky Department of Public Health:				
66.032	State Indoor Radon Grants	K197426105-0 (SPHD)	14,337	

Continued

Schedule of Expenditures of Federal Awards--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

<u>CFDA #</u>	<u>Program Title</u>	<u>Pass Through Number</u>	<u>Expenditures Cash</u>	<u>Provided to Subrecipient</u>
66.818	Passed Through Kentucky Department of Public Health: Brownfields Assessment and Cleanup Cooperative Agreements	Various	38,669	
	Total U.S. Environmental Protection Agency		2,971,877	
	<u>U.S. Department of Energy</u> Passed Through Kentucky Cabinet for Natural Resources and Environmental Protection:			
81.041	State Energy Program	M-00242141	1,331	
	<u>U.S. Department of Education</u> Direct Programs: TRIO Cluster			
84.044	TRIO - Talent Search		248,941	
84.066	TRIO - Educational Opportunity Centers		396,616	
	Total U.S. Department of Education		645,557	
	<u>U.S. Department of Health and Human Services</u> Direct Programs:			
93.008	Medical Reserve Corps Small Grant Program		2,618	
93.048	Special Programs for the Aging - Title IV and Title II Discretionary Projects		42,417	
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance		362,862	
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance		819,640	710,448
93.926	Healthy Start Initiative		1,211,963	38,547
	Passed Through Kentuckiana Regional Planning and Development Agency (KIPDA):			
93.045	Special Programs for the Aging - Title III, Part C Nutrition Services	M-05186930	1,612,595	947,629

Continued

Schedule of Expenditures of Federal Awards--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

<u>CFDA #</u>	<u>Program Title</u>	<u>Pass Through Number</u>	<u>Expenditures Cash</u>	<u>Provided to Subrecipient</u>
Passed Through Kentucky Cabinet for Health and Family Services:				
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	U52CCU400496 (SDFD)	99,443	
93.197	Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	US7/CCU-422866-01 (SJBW)	353,839	5,818
93.217	Family Planning Services	6 FPHPA040612-33-02 (SJBH)	490,975	9,875
93.235	Abstinence Education Program	SJB7	33,666	
93.268	Immunization Grants	H23CCH422527 (SDFB)	498,419	
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	Various	597,019	155,331
93.767	State Children's Insurance Program	05-0505KY5021 (SAAK)	57,247	
93.778	Medical Assistance Program	(SAAG)	50,167	
93.940	HIV Prevention Activities - Health Department Based	U62/CCU423518 (SDGH)	114,125	
93.944	Human Immunodeficiency Virus (HIV) /Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	U62/CCU423571 (SDGP)	35,100	
93.945	Assistance Programs for Chronic Disease Prevention and Control	U50/CCU421288.03 (SJKU)	98,288	21,000
93.959	Block Grants for Prevention and Treatment of Substance Abuse	M-04101415	974,365	140,410
93.977	Preventive Health Services - Sexually Transmitted Diseases Control Grants	H52CCH404333 (SDFG)	145,191	130,806
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	U32/CCU422701-02-1 (SJKC)	5,000	3,963
93.994	Maternal and Child Health Services Block Grant to the States	6B04MC04250-01-02 (SJBH)	610,753	501,706
Passed Through Kentucky Cabinet for Family and Children:				
93.568	Low-Income Home Energy Assistance	M-05216827 Subcontract No. 15	3,113,548	
93.569	Community Services Block Grant	M-05191861	1,463,656	
Total U.S. Department of Health and Human Services			12,792,896	2,665,533

Continued

Schedule of Expenditures of Federal Awards--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

<u>CFDA #</u>	<u>Program Title</u>	<u>Pass Through Number</u>	<u>Expenditures Cash</u>	<u>Provided to Subrecipient</u>
<u>U.S. Corporation for National and Community Service</u>				
Direct Programs:				
94.002	Retired and Senior Volunteer Program		145,700	
94.011	Foster Grandparent Program		408,328	
Total U.S. Corporation for National and Community Service			554,028	
<u>Federal Emergency Management Agency</u>				
Direct Programs:				
97.044	Assistance to Firefighters Grant		190,634	
Passed Through Kentucky Division of Emergency Management:				
97.004	State Domestic Preparedness Equipment Support Program	Various	3,526,592	182,967
Total Federal Emergency Management Agency			3,717,226	182,967
<u>U.S. Department of Homeland Security</u>				
Direct Programs:				
97.071	Metropolitan Medical Response System		581,526	
Passed Through Kentucky Department of Military Affairs:				
97.008	Urban Area Security Initiative	M-04547290	3,775,989	275,000
97.039	Hazard Mitigation Grant	M-03317490	5,566	
97.051	State and Local All Hazards Emergency Operations Planning	M-03055032	3,335	
97.053	Citizen Corps	M-05052269	132	
97.054	Community Emergency Response Teams	M-03053041	2,219	
97.055	Interoperable Communications Equipment	Various	6,138,697	
97.067	Homeland Security Grant Program	Various	2,083,478	154,895
97.078	Buffer Zone Protection Plan (BZPP)	Various	269,023	

Continued

Schedule of Expenditures of Federal Awards--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

<u>CFDA #</u>	<u>Program Title</u>	<u>Pass Through Number</u>	<u>Expenditures Cash</u>	<u>Provided to Subrecipient</u>
	Passed Through Metro United Way:			
97.024	Emergency Food and Shelter National Board Program	342800-009	<u>171,177</u>	<u> </u>
	Total U.S. Department of Homeland Security		13,031,142	429,895
	<u>U.S. Secret Service</u>			
	Direct Programs:			
97.NA	Secret Service Task Force		<u>9,303</u>	<u> </u>
	Total Expenditures of Federal Awards		<u>\$ 83,781,628</u>	<u>\$ 16,646,686</u>

See Notes to Schedule of Expenditures of Federal Awards

Notes to the Schedule of Expenditures of Federal Awards

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Note A--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 ("SEFA") showing each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance ("CFDA"). The accompanying schedule includes all federal grant activity for the Louisville/Jefferson County Metro Government ("Metro Government"), and is presented on the modified accrual basis of accounting.

The basic financial statements of Metro Government 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 SEFA may not be directly traceable to the basic financial statements in all cases.

Note B--Non-cash Expenditures

There were no non-cash expenditures of federal awards.

Note C--Type A Programs

Type A programs for Metro Government mean any program for which total expenditures of federal awards exceeded \$2,513,449 for the fiscal year ended June 30, 2006.

Note D--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 sub-recipient 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 SEFA.

Continued

Notes to the Schedule of Expenditures of Federal Awards--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Note D--Programs From Multiple Funding Sources--Continued

<u>CFDA No.</u>	<u>Program</u>	<u>Received From</u>	<u>Direct/Pass Through (Grantor No.)</u>	<u>Expenditures</u>
14.235	Supportive Housing Program	HUD	Direct	\$ 51,516
		Kentucky Housing Corporation	Pass Through (KY36B020-1010)	<u>51,750</u>
	CFDA 14.235			<u>\$ 103,266</u>
16.710	Public Safety Partnership and Community Policing Grant	DOJ	Direct	\$ 1,434,272
		Kentucky Justice Cabinet	Pass Through (Multiple)	<u>485,516</u>
	CFDA 16.710			<u>\$ 1,919,788</u>
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	HHS	Direct	\$ 819,640
		Kentucky Cabinet for Health Services	Pass Through (Multiple)	<u>597,019</u>
	CFDA 92.283			<u>\$ 1,416,659</u>

Note E--Subsequent Events

In December 2006, the U.S. Department of Labor ("DOL") notified the Kentuckiana Works Department of potentially disallowable costs and internal control weaknesses related to their audit of the Kentuckiana Work Welfare to Work Formula and Competitive Grant programs for the period from October 1, 1998 through June 30, 2002. See the section entitled "Audits Performed By Other Organizations" for additional information.

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the Louisville/Jefferson County Metro Government ("Metro Government").
2. Reportable conditions relating to the audit of the financial statements are reported below.
3. No instances of noncompliance material to the financial statements of Metro Government were disclosed during the audit.
4. Reportable conditions relating to the audit of the major federal award programs are reported below.
5. The auditors' report on compliance for the major federal award programs of Metro Government expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs are as follows:

<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	\$ 20,965,506
14.219	Community Development Block Grant/ Small Cities Program	<u>117,140</u>
	Total Cluster	21,082,646
HOME		
14.239	HOME Investment Partnerships Program	6,231,735
WIA - Cluster		
17.258	WIA Adult Program	1,559,582
17.259	WIA Youth Activities	712,798
17.260	WIA Dislocated Workers	<u>2,952,796</u>
	Total Cluster	5,225,176
Other Programs		
20.205	Highway Planning and Construction	3,763,055
93.568	Low-Income Home Energy Assistance	3,113,548
97.004	State Domestic Preparedness Equipment Support Program	3,526,592
97.008	Urban Area Security Initiative	3,775,989
97.055	Interoperable Communications Equipment	<u>6,138,697</u>
		<u><u>\$ 52,857,438</u></u>

Schedule of Findings and Questioned Costs--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Summary of Audit Results--Continued

8. The threshold used for distinguishing between Type A and Type B programs was \$2,513,449.
9. Metro Government did not qualify as a low risk auditee.

Findings – Financial Statement Audit

Item 2006-1 - Internal Control Over Grants in Certain Departments Should Be Improved

Condition: We noted that there have been ongoing accounting issues related to housing-related federal grants such as Community Development Block Grants (“CDBG”) and HOME Investment Partnership Programs.

Cause: There has been difficulty in the reporting of funds actually expended and requests for draw-down of funds are not consistently prepared and submitted on a timely basis. In last year’s Single Audit of the expenditures of federal funds, all six of the reportable instances of noncompliance related to programs within Louisville Metro Housing. The local office of the U.S. Department of Housing and Urban Development (“HUD”) recently concluded a review of HUD programs. Their report, issued in November 2006, contained several findings including an out-of-balance situation with U.S. Government records and lack of timeliness in requests for reimbursement. HUD is currently the largest source of federal funds for Metro Government. In 2006, HUD program expenditures exceeded \$33 million and represented over one-third of total federal program expenditures.

Effect: Required reports may not be made on a timely basis. Requests for draw downs of funds may be submitted late or may not be accurate. Metro Government’s cash flow could be adversely affected.

Recommendation: Given the size and importance of HUD-related programs, we recommend that a concerted effort be made to bring the level of processing, accounting and reporting for federal programs up to the highest standards. Metro Government’s cash flow will improve if draw-down requests are made on a timely basis and if management can be assured that all reimbursable expenditures are included.

Managements’ Response: *Louisville Metro Government is committed to continuing to improve internal controls over grants processes. Since the HUD review in the fall of 2006, Metro Finance and the Metro Housing Department have been working together to identify differences between reported information in the Federal IDIS system and the government’s general ledger. We will continue working to reconcile identified differences until each issue is resolved. Additionally, the management of Metro Government is currently reviewing ways to improve processing, accounting and reporting for federal programs associated with the Housing Department.*

Schedule of Findings and Questioned Costs--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Findings – Financial Statement Audit--Continued

Item 2006-2 - Training and Coordination of Business Managers Could Be Improved

Condition: In connection with our audit procedures, we visited over 20 departments. During our visits, we discussed accounting procedures and reviewed the departments' operations in relation to the operation of Metro Government as a whole. We noted a fairly wide variety of skill levels and training of departmental business managers. Some were experienced in accounting and business operations. Others rose to the position through a non-business career track and were still learning the business side of the department.

Cause: Training opportunities are offered by the Finance Department; however, these are not mandatory and a number of business managers do not attend. Also, we noted that the Finance Department has no direct ability to compel department business managers to follow Metro Government's policies.

Effect: The quality and/or consistency of the accounting records may be adversely affected.

Recommendation: We recommend that some type of mandatory educational regimen and minimum standards be developed for departmental business managers. This would aid in the training of less experienced personnel and would promote consistency in accounting among the departments. In addition, the Finance Department needs to have the authorization to compel certain accounting practices within the departments in key areas.

Managements' Response: *The Metro Finance Department has developed a business manager's committee that is currently reviewing the process for hiring, training and monitoring the role of the departmental business manager. Metro Government continues to offer various training opportunities and meets monthly with business managers to review operational issues and various policies and procedures. Metro Government will continue to focus attention on the training and coordination of business managers, and improve training and oversight of departmental business offices.*

Schedule of Findings and Questioned Costs--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Findings – Financial Statement Audit--Continued

Item 2006-3 - A Business Continuity Plan Should Be Developed

Condition: We noted that Metro Government does not have a formalized business continuity plan in place. Management is in the initial process of developing a comprehensive business continuity plan and will incorporate an offsite disaster facility as part of its "MetroSafe" program.

Cause: This has been an action item since the merger of Louisville and Jefferson County governments; however, other technology-related projects have been given higher priority.

Effect: Metro Government might not be able to properly function in the event of a major disaster/emergency.

Recommendation: A business continuity plan should be completed as soon as possible. Such a plan should include not only the Technology Department disaster recovery plan but also the critical "non-technology" business functions and agencies including, but not limited to, financial/business Services, civil services, and emergency services, and include those functions that are needed to continue critical government operations and services in event of an emergency.

Managements' Response: *During fiscal year 2006 Metro Technology Services and other administrative departments of Metro Government developed and documented formalized business continuity plans. Metro Technology Services is currently moving to an Information Technology Infrastructure Library (ITIL) framework which will address continued development and documentation of procedures, however, several procedures are currently documented and in place. As Metro Technology moves to a new location in the next few years, a comprehensive and formalized Data Recovery Plan will be developed and implemented.*

Metro Technology Services agrees that a formal disaster recovery plan is critical, and is currently preparing to request bids to develop this plan.

Schedule of Findings and Questioned Costs--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Findings and Questioned Costs - Major Federal Award Programs Audit

Item 2006-4 – HOME Program Accounting and Reporting Need To Be Improved (CDFA No. 14.239)

Condition: The Electronic Line of Credit Control System (“eLOCCS”) and related Integrated Disbursement & Information System (“IDIS”), which interfaces with eLOCCS, are used for handling disbursements for major HUD programs. During the year, Metro Government’s records were found to be out of balance with the eLOCCOS by an amount in excess of \$1 million.

Cause: Clerical and organizational issues within the Housing Department appear to be the cause.

Effect: Out-of-balance situations increase the chance that an error will occur. Untimely reimbursement requests result in lack of cash flow for Metro Government and creates a situation in which errors are more likely.

Recommendation: Adequate resources should be devoted towards developing more accurate and timely reporting in this area.

Managements’ Response: *Metro Government is committed to continued improvement over accounting and reporting processes for Housing grant programs. Housing and Finance staff are coordinating efforts to reconcile any differences between HUD’s IDIS and eLOCCS disbursement systems to Metro’s general ledger.*

A Housing policy has been implemented that requires federal funds to be drawn down within 30 days of the monthly end closing date. Housing staff responsible for drawdowns are required to balance the expenditures related to the drawdown amount prior to submitting a drawdown request. These efforts will continue to strengthen the reimbursement process and develop more accurate and timely reporting for these grants.

Item 2006-5 – HOME Program Income Should Be Used Before Drawing Down Government Funds (CFDA No. 14.239)

Condition: HOME program income should be expended before requests for reimbursement are made.

Cause: As noted in Item 2006-4 above, this appears to be due to an issue with clerical and organizational issues. There did not appear to be an intentional violation of HUD rules.

Effect: HUD rules are not being adhered to.

Schedule of Findings and Questioned Costs--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Item 2006-5--Continued

Recommendation: Program income should be used, within applicable time guidelines, before requests for reimbursement are made. Management reports that they now have procedures in place to make sure this occurs.

Managements' Response: *Housing has implemented a process that requires program income to be reviewed on a monthly basis. The amount of program income earned for the month is then applied to the appropriate grant programs and reported in the IDIS and eLOCCS systems. The system applies the program income amount to the total drawdown amount and the difference is disbursed as reimbursement to Metro Government. This process ensures that all program income earned is applied prior to the drawdown of federal funds.*

Item 2006-6 - Sub-recipient Monitoring Did Not Appear To Be Complete and Sub-recipients Did Not Always Receive Complete Grant Information (CFDA No. 14.218, 14.219 and 14.239)

Condition: Metro Government policies and procedures for sub-recipient monitoring of the CDBG and HOME grants state that every active project will be subjected to monitoring procedures at least once in every program year. We noted that at least one active project was not monitored in 2006. Additionally, sub-recipient folders did not appear to contain responses or follow-up comments in all cases. In addition, for the four sub-recipient files tested, documentation was insufficient to determine if federal requirements to provide sub-recipients with all relevant documentation related to the grant and its requirements was met.

Effect: This could result in grant compliance issues within sub-recipients remaining undetected and/or sub-recipients being unaware of grant requirements.

Recommendation: The Housing Department should ensure that sub-recipients are monitored in accordance with Metro Government policies and procedures. Also, information provided to sub-recipients should contain all relevant documentation.

Managements' Response: *Louisville Metro Government does have policies and procedures in place that dictate sub-recipient monitoring, however; during the last year due to employee transitions, a few monitoring exceptions may have been noted. Housing is currently hiring an individual that will be trained specifically in sub-recipient monitoring requirements to ensure that all monitoring requirements are being met and the policies and procedures are being properly followed.*

Additionally, the sub-recipient agreement/contract contains all pertinent information related to the grant. Adequate documentation has not been provided to support this finding that sub-recipients did not always receive complete grant information. Metro believes we have communicated all required information to our sub-recipients regarding the grant and its requirements.

Schedule of Findings and Questioned Costs--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Item 2006-7 - Not All Greater Louisville Workforce Investment Board Seats are Filled (WIA Cluster, CFDA No. 17.258, 17.259, 17.260)

Condition: Section 117(b)(2) of the Workforce Investment Act outlines the composition of a Local Workforce Investment Board. The Greater Louisville Workforce Investment Board ("GLWIB") is currently seeking members to fill the vacancies.

Effect: Metro Government is not in compliance with the stated requirements.

Recommendation: Metro Government should take actions steps to ensure that the vacant seats are filled as soon as possible.

Managements' Response: *Due to the large numbers of board members composed of both business leaders, educators, labor leaders and other mandated partners, it is not uncommon to have open slots. The GLWIB is actively working to fill the vacancies on our board, and recently named three new additional business representatives to the Board. In addition, the Executive Director and Board chair have targeted, and are currently engaging several potential candidates to complete the board. It is important to note, however, that the GLWIB by-laws define a quorum as a "majority of the appointed members," so having some board slots vacant in no way prevents the GLWIB from doing their work.*

Item 2006-8 – Incorrect Benefit Calculations Under the Low Income Home Energy Program (CFDA No. 93.568)

Condition: In our sample of twenty recipients of assistance under the Low Income Home Energy Assistance program, we found that one person's benefits were incorrectly calculated. These all related to using a previous method of calculating benefits, which was replaced in February 2006.

Cause: Apparently, the method that Metro Government was previously using to compute benefits produced some errors.

Effect: Programs benefits may be incorrectly calculated.

Recommendation: Metro Government should fully evaluate its revised method of calculating benefits to insure that it is operating properly.

Managements' Response: *LIHEAP benefits as referenced here were previously calculated by an automated system called CAPbase. During the fiscal year the CAPbase system was replaced with a system called CASTiNET. This system has been tested by the KACA (Kentucky Association of Community Actions) to ensure that a miscalculation of benefits does not occur. The appropriate staff has also received ongoing training to minimize any amount of human error that could occur.*

Note: During the course of our audit, we became aware of audits conducted by other organizations. Information regarding this is presented in the section entitled "Audits Performed By Other Organizations".

Summary Schedule of Prior Audit Findings

Summary Schedule of Prior Audit Findings

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Prior year audit findings that we believe have been adequately addressed include the following:

Item 05-Metro-1

Comment: Metro Government Should Follow Required procurement Policies In Obtaining Third Party Administrators And Should Obtain Written Contracts For Its Self-Insured Health Plans.

Status: Metro Government procurement policies have been followed, and signed contracts have been obtained for the administration of the Self-Insured Health Plans for FY 05 and FY06.

Item 05-Metro-3

Comment: Louisville Metro Finance Should Improve Its Financial Statement Compilation Procedures.

Status: Metro Government has communicated specific directions to component units, and reviews GASB and GFOA requirements annually to ensure that appropriate disclosures are made. Appropriate reconciliations have been made between Metro Government financial reports/information and third party reports/information. However, Metro Government's systems do not currently allow management to obtain the total amounts of outstanding conduit debt and construction commitments. Metro Government is investigating further whether there is a procedure that could be put in place to capture this information.

Item 05-Metro-8

Comment: Metro Government Should Consistently Apply Formal Change Management Control Procedures For The Government's Financial And Human Resources Applications.

Status: Categories have been created in Metro Government'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. PeopleSoft has been merged with the centralized Change Management Process Outline facilitated by the Enterprise Application Support group. Full controls are being further developed as part of the government's implementation of the Information Technology Infrastructure Library ("ITIL") project.

Item 05-Metro-13

Comment: Louisville Metro Housing and Community Development Should Reimburse Sub-recipients Only For Amounts Expended During The Grant Period Of Availability.

Status: Louisville Metro Housing and Community Development has assigned a new team to administer, monitor and perform site reviews of all activities related to the ISTEAs grants to the African American Heritage Foundation ("AAHF"). This team will perform strict oversight of the activities at the construction site and the role of the AAHF in the project and ensure that reimbursements are only made for amounts expended during the grant period of availability.

Summary Schedule of Prior Audit Findings--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Item 05-Metro-14

Comment: Louisville Metro Housing and Community Development Should Review Sub-recipient Requests For Reimbursement For Duplicate Payments

Status: Upon further review of the duplicate payments it was determined that the invoices in question had not been double paid, and that the payments made by Metro Government had been applied to other invoices from the same vendor.

Item 05-Metro-15

Comment: Louisville Metro Housing And Community Development Should Continue Making Improvements In Its Monitoring Of HOME Sub-recipients.

Status: Louisville Metro Housing And Community Development has policies and procedures in place to ensure that sub-recipients are monitored. At the start of each Program year a monitoring plan is developed in accordance with the Louisville Metro Housing And Community Development policies and procedures manual.

Item 05-Metro-16

Comment: Louisville Metro Housing And Community Development Should Continue To Improve Cash Drawdown Procedures For The HOME Program.

Status: Louisville Metro Housing And Community Development has developed policies and procedures to ensure that cash drawdowns for Federal programs are performed regularly and routinely on a monthly basis.

Item 05-Metro-17

Comment: Louisville Metro Housing And Community Development Should Continue To Improve Cash Drawdown Procedures For The CDBG Program.

Status: Louisville Metro Housing And Community Development has developed policies and procedures to ensure that cash drawdowns for Federal programs are performed regularly and routinely on a monthly basis.

Summary Schedule of Prior Audit Findings--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Item 05-Metro-18

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

Status: Louisville Metro Housing And Community Development has developed policies and procedures to ensure that proper submission of Federal cash transaction reports is performed.

Prior year findings that have not been addressed or that have only partially been addressed include the following:

Item 05-Metro-2

Comment: Metro Government Should Reconcile Health Care Claims Payments To Supporting Claims Detail And Should Implement Procedures To Verify Claimants.

Status: Monthly reconciliations are prepared comparing the weekly claim draws to Humana claims listings and the Humana monthly account reconciliation. A task force group has been developed by Metro Government during the fiscal year ended June 30, 2006 to review procedures over the propriety of all healthcare information. Metro Government performs no independent review of the propriety of claims paid.

Item 05-Metro-4

Comment: Metro Government Should Improve Grants Accounting And Compilation Procedures For The SEFA.

Status: Management has implemented changes that have significantly improved the process for preparing their Schedule of Expenditures of Federal Awards ("SEFA"). However, there are still areas in which improvements in grant accounting need to be made, particularly with regards to disclosures of amounts paid to sub-recipients. See current year comment 2006-1.

Item 05-Metro-5

Comment: Metro Government Should Develop Written Policies Related To Its Internal Cash Pool.

Status: Metro Government has developed standard policies for the internal cash pool, and are in the process of formalizing those into written internal procedures.

Summary Schedule of Prior Audit Findings--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Item 05-Metro-6

Comment: Metro Government Should Improve Internal Controls Over Payroll Records.

Status: During the current year, Metro Government continued their implementation of electronic time and attendance systems, but this implementation was not complete as of June 30, 2006. Additional plans to transition to a pay for time worked payroll schedule are under review. We further recommended that:

- Existing procedures should be analyzed to consider adjustments in policies so that employees are paid based on their proper job code, and to attempt to reduce the amount of employees paid at a grade above their normal position.
- With respect to overtime, an analysis should be made to determine if it is financially viable to reduce the amount of overtime pay through adjustment of work schedules and/or the addition of more personnel.
- Payroll processing timing and policies should be adjusted to remove the requirement for departments to estimate the number of hours each employee will work between the payroll processing date and the end of the payroll period.

Item 05-Metro-7

Comment: Metro Government Should Develop A Formal Disaster Recovery Plan.

Status: Metro Government has developed a Continuation of Operations and Continuation of Government group to review Metro Government's disaster recovery and business continuity plans. A formal plan has not yet been developed and implemented. See current year comment 2006-3.

Item 05-Metro-9

Comment: Metro Government Should Adhere To Established Procedures Governing System Access Requests For The PeopleSoft Human Resources System And LeAP Financial Accounting System.

Status: This year, we noted that the comments made in the prior year had been addressed. Metro Government is currently moving to an ITIL framework which will further address this issue. There are already several procedures that are currently documented and followed. We recommend that a review of user access rights be performed annually to ensure compliance.

Summary Schedule of Prior Audit Findings--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Item 05-Metro-10

Comment: Metro Government Should Improve Application Security Of The PeopleSoft System

Status: The application team members have been individually assigned login accounts and passwords to the application. The user rights and privileges have been appropriately allocated based on job description and departmental needs. The user account for the Peoplesoft Manager has access to the Query functions on the live Database. Only approved IT staff have access to the PeopleSoft Administration account. A formal security policy has been established; however, security forms for current employees were not available.

Item 05-Metro-11

Comment: Metro Government Should Improve The Application Security Of The LeAP Financial Accounting System.

Status: Metro Government has continued to improve application security controls during the year. The hiring of an Oracle Database expert is considered likely to continue to improve controls. The Finance Department was asked to provide access to the signed access forms, however, they were unable to produce them. We recommend that these forms be completed for all LeAP users and a review of access based on job requirements be determined.

Item 05-Metro-12

Comment: Metro Government Should Improve Network Logical Security.

Status: Metro Government has implemented a network user security access policy. A system application is in place to track access request. Security Policies are now being enforced at the network access level for all staff. This will continue to need review on a regular basis to ensure that all staff are only allowed access needed for their job duties. We recommended that periodic reviews of access and compliance to security policies be performed.

Audits Performed By Other Organizations

Audits Performed By Other Organizations

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

We are aware of the following audits of Louisville/Jefferson County Metro Government ("Metro Government") performed by other organizations during the period of this year's audit.

Organization: U.S. Department of Housing and Urban Development ("HUD")

Metro Government Agency: Louisville Metro Housing & Community Development ("LMHCD")

Description: During the period of August 15-18, 2006, and August 21, 2006, HUD Community Planning and Development Representatives conducted on-site monitoring of LMHCD's HOME Program. The purpose of the monitoring review was to evaluate the housing programs administered by LMHCD to ensure they are within the guidelines established by the HOME Program statute and final rule. There were four "findings" and four "concerns" noted in the HUD report issued November 20, 2006. A summary of the "findings" follow:

- Finding No. 1 – HUD's monitoring review of the HOME financial records revealed that Metro Government's records were out of balance with the Treasury Line Of Credit Control System by \$1,190,666. In addition, Metro Government financial reports revealed substantial expenditures (\$4,653,504) paid from Metro Government general funds for HOME-assisted activities that had not been drawn for reimbursement, some of which were over a year old.
- Finding No. 2 – The review found that program income was not being drawn before drawing from the HOME Treasury account, which was a violation of HOME program rules.
- Finding No. 3 – The review found that the time between setup, commitment of a project and drawdown of HOME funds was untimely.
- Finding No. 4 – The documentation in three files reviewed was insufficient to determine if the federal requirements were met.

Organization: U.S. Department of Labor ("DOL")

Metro Government Agency: Kentuckiana Works Department ("KWD")

Description: In a letter dated December 12, 2006 the DOL notified the KWD of potentially disallowable costs and internal control weaknesses related to their audit of the Kentuckiana Works Welfare to Work Formula and Competitive Grant programs for the period from October 1, 1998 through June 30, 2002. The DOL identified up to \$3,167,000 of potentially disallowable costs due to Kentuckiana Works not conducting full and open competitive bidding practices and \$2,376,000 of potentially disallowable costs as a result of the KWD not ensuring that costs claimed by four of its grant partners were necessary and reasonable. The DOL noted that the same costs could be included in both of these amounts.

Audits Performed By Other Organizations--Continued

Louisville/Jefferson County Metro Government

For the Year Ended June 30, 2006

Organization: Kentucky Education Cabinet – Department For Workforce Investment (the “Cabinet”)

Metro Government Agency: Greater Louisville Workforce Investment Area (“GLWIA”)

Description: In a letter dated November 27, 2005, the Cabinet provided a preliminary report based on their review of the GLWIA. The report included six findings. The reviewers noted that not all GLWIA board seats were filled. They recommended that a Resource Sharing Agreement be developed beyond the current Memorandum of Understanding with One-Stop Partners. Other findings related to incomplete files.

Note: Reports issued by other organizations should be reviewed for more complete information.