

**REPORT OF THE AUDIT OF THE
KNOX COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**MIKE HARMON
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EXECUTIVE SUMMARY
AUDIT OF THE
KNOX COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Knox County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Knox County Fiscal Court. In accordance with OMB Circular A-133, we have issued a qualified opinion on the compliance requirements that are applicable to Knox County's major federal program: Emergency Watershed Protection Program (CFDA #10.923).

Financial Condition:

The Knox County Fiscal Court had total receipts of \$32,628,657 and disbursements of \$21,269,510 in fiscal year 2014. This resulted in a total ending fund balance of \$6,134,238, which is an increase of \$618,891 from the prior year.

Report Comments:

- 2014-001 The Knox County Fiscal Court Lacks Adequate Segregation Of Duties Over Disbursements
- 2014-002 The Knox County Fiscal Court Did Not Have Strong Internal Controls Over Disbursements
- 2014-003 The Knox County Fiscal Court Did Not Have Adequate Internal Controls Over Gravel Inventory
- 2014-004 The Knox County Fiscal Court Did Not Follow Proper Bid Laws And Regulations
- 2014-005 The Knox County Fiscal Court Did Not Ensure The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
- 2014-006 The Knox County Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- 2014-007 The Knox County Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Funds
- 2014-008 The Knox County Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement
- 2014-009 The Knox County Fiscal Court Did Not Have Sufficient Internal Controls To Ensure Federal Requirements For Matching Were Met
- 2014-010 The Knox County Fiscal Court Did Not Implement Adequate Internal Controls Over Suspension And Debarment And Special Tests And Provisions
- 2014-011 The Knox County Fiscal Court Did Not Follow Proper Bid Laws And Regulations (See Financial Statement Finding 2014-004)

Deposits:

The fiscal court deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable J.M. Hall, Knox County Judge/Executive
Members of the Knox County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Knox County Fiscal Court, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit 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 the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



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Auditor's Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1, the financial statement is prepared by the Knox County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Knox County Fiscal Court as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of the Knox County Fiscal Court as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Emphasis of Matters

As discussed in Note 8 to the financial statements, the entity has had numerous significant transactions with a business controlled by, and with people who are related to, the officers and directors of the entity. Our opinion is not modified with respect to this matter.

To the People of Kentucky
 Honorable Matthew G. Bevin, Governor
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Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Knox County Fiscal Court. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement.

The budgetary comparison schedules, capital asset schedule, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 13, 2016 on our consideration of the Knox County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Knox County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2014-001 The Knox County Fiscal Court Lacks Adequate Segregation Of Duties Over Disbursements
- 2014-002 The Knox County Fiscal Court Did Not Have Strong Internal Controls Over Disbursements
- 2014-003 The Knox County Fiscal Court Did Not Have Adequate Internal Controls Over Gravel Inventory
- 2014-004 The Knox County Fiscal Court Did Not Follow Proper Bid Laws And Regulations
- 2014-005 The Knox County Fiscal Court Did Not Ensure The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15
- 2014-006 The Knox County Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- 2014-007 The Knox County Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Funds

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Other Reporting Required by *Government Auditing Standards* (Continued)

- 2014-008 The Knox County Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement
- 2014-009 The Knox County Fiscal Court Did Not Have Sufficient Internal Controls To Ensure Federal Requirements For Matching Were Met
- 2014-010 The Knox County Fiscal Court Did Not Implement Adequate Internal Controls Over Suspension And Debarment And Special Tests And Provisions
- 2014-011 The Knox County Fiscal Court Did Not Follow Proper Bid Laws And Regulations (See Financial Statement Finding 2014-004)

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 13, 2016

KNOX COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

J.M Hall	County Judge/Executive
Carson Gilbert	Magistrate
Keith Abner	Magistrate
Jerry Cox	Magistrate
Pat McDonald (Deceased)	Magistrate
Giulio Cima	Magistrate

Other Elected Officials:

Gilbert Holland	County Attorney
Mary Hammons	Jailer
Mike Corey	County Clerk
Greg Helton	Circuit Court Clerk
John Pickard	Sheriff
Bill Oxendine	Property Valuation Administrator
Mike Blevins	Coroner

Appointed Personnel:

Jack Ketchum	County Treasurer
John Tye	Assistant County Treasurer
Jim Tye	Deputy Judge Executive
Wayne Willis	Assistant Occupational License Fee Administrator and Enforcement Officer
Tammy Peters	Finance Officer

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**KNOX COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS**

For The Year Ended June 30, 2014

KNOX COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,516,076	\$	\$
Excess Fees	457,509		
Licenses and Permits	132,675		
Intergovernmental	387,097	3,374,719	137,865
Charges for Services			69,530
Miscellaneous	21,966,628	276,629	24,768
Interest	6,522	4,066	356
Total Receipts	<u>24,466,507</u>	<u>3,655,414</u>	<u>232,519</u>
DISBURSEMENTS			
General Government	1,438,534		
Protection to Persons and Property	103,964		1,686,735
General Health and Sanitation	3,036,711		
Recreation and Culture	6,117		
Roads		3,685,417	
Debt Service	7,908,161		37,079
Capital Projects			
Administration	747,105	312,117	283,133
Total Disbursements	<u>13,240,592</u>	<u>3,997,534</u>	<u>2,006,947</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>11,225,915</u>	<u>(342,120)</u>	<u>(1,774,428)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds	6,000,000		
Payments To Escrow Agent	(16,740,256)		
Transfers From Other Funds	2,977,236		1,800,000
Transfers To Other Funds	(1,967,500)		
Total Other Adjustments to Cash (Uses)	<u>(9,730,520)</u>		<u>1,800,000</u>
Net Change in Fund Balance	1,495,395	(342,120)	25,572
Fund Balance - Beginning (Restated)	3,763,170	603,416	56,554
Fund Balance - Ending	<u>\$ 5,258,565</u>	<u>\$ 261,296</u>	<u>\$ 82,126</u>
Composition of Fund Balance			
Bank Balance	\$ 5,367,488	\$ 336,173	\$ 122,027
Plus: Deposits In Transit			
Less: Outstanding Checks	<u>(108,923)</u>	<u>(74,877)</u>	<u>(39,901)</u>
Fund Balance - Ending	<u>\$ 5,258,565</u>	<u>\$ 261,296</u>	<u>\$ 82,126</u>

The accompanying notes are an integral part of the financial statement.

KNOX COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

Budgeted Funds						
Local Government Economic Assistance Fund	Occupational License Fund	911 Fund	Federal Program Fund	Hospital Sinking Fund	South Kentucky Regional Business Park Fund	Local Emergency Planning Committee Fund
\$	\$ 2,621,983	\$ 261,192	\$	\$	\$ 169,190	\$
729,086		210,000				812
4,361	1,178	25			384	
<u>733,447</u>	<u>2,623,161</u>	<u>471,579</u>			<u>169,574</u>	<u>812</u>
	682,058				134,571	
70,000		425,398				1,569
100,000						
33,235				57,447		
97,771						
		139,761				
<u>301,006</u>	<u>682,058</u>	<u>565,159</u>		<u>57,447</u>	<u>134,571</u>	<u>1,569</u>
432,441	1,941,103	(93,580)		(57,447)	35,003	(757)
		117,000		50,000		
(1,037,202)	(1,928,565)				(11,469)	
<u>(1,037,202)</u>	<u>(1,928,565)</u>	<u>117,000</u>		<u>50,000</u>	<u>(11,469)</u>	
(604,761)	12,538	23,420		(7,447)	23,534	(757)
855,449	9,301	42,487	27,293	8,644	105,158	4,525
<u>\$ 250,688</u>	<u>\$ 21,839</u>	<u>\$ 65,907</u>	<u>\$ 27,293</u>	<u>\$ 1,197</u>	<u>\$ 128,692</u>	<u>\$ 3,768</u>
\$ 250,688	\$ 29,911	\$ 70,480	\$ 27,293	\$ 1,197	\$ 128,692	\$ 3,768
	(8,072)	(4,573)				
<u>\$ 250,688</u>	<u>\$ 21,839</u>	<u>\$ 65,907</u>	<u>\$ 27,293</u>	<u>\$ 1,197</u>	<u>\$ 128,692</u>	<u>\$ 3,768</u>

The accompanying notes are an integral part of the financial statement.

KNOX COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	<u>Budgeted Fund</u>	<u>Unbudgeted Funds</u>		<u>Total Funds</u>
	<u>Pride Fund</u>	<u>Public Properties Corporation Fund</u>	<u>Jail Commissary Fund</u>	
RECEIPTS				
Taxes	\$	\$	\$	\$ 4,568,441
Excess Fees				457,509
Licenses and Permits				132,675
Intergovernmental	820	172,790		5,013,189
Charges for Services				69,530
Miscellaneous			101,913	22,369,963
Interest		4	117	17,350
Total Receipts	<u>820</u>	<u>172,794</u>	<u>102,030</u>	<u>32,628,657</u>
DISBURSEMENTS				
General Government				2,255,163
Protection to Persons and Property				2,287,666
General Health and Sanitation				3,136,711
Recreation and Culture			106,737	112,854
Roads	3,100			3,688,517
Debt Service		172,790		8,208,712
Capital Projects				97,771
Administration				1,482,116
Total Disbursements	<u>3,100</u>	<u>172,790</u>	<u>106,737</u>	<u>21,269,510</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,280)</u>	<u>4</u>	<u>(4,707)</u>	<u>11,359,147</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds				6,000,000
Payments To Escrow Agent				(16,740,256)
Transfers From Other Funds	500			4,944,736
Transfers To Other Funds				(4,944,736)
Total Other Adjustments to Cash (Uses)	<u>500</u>			<u>(10,740,256)</u>
Net Change in Fund Balance	(1,780)	4	(4,707)	618,891
Fund Balance - Beginning (Restated)	1,863	6,570	30,917	5,515,347
Fund Balance - Ending	<u>\$ 83</u>	<u>\$ 6,574</u>	<u>\$ 26,210</u>	<u>\$ 6,134,238</u>
Composition of Fund Balance				
Bank Balance	\$ 83	\$ 6,574	\$ 26,388	\$ 6,370,762
Plus: Deposits In Transit			448	448
Less: Outstanding Checks			(626)	(236,972)
Fund Balance - Ending	<u>\$ 83</u>	<u>\$ 6,574</u>	<u>\$ 26,210</u>	<u>\$ 6,134,238</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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KNOX COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Knox County includes all budgeted and unbudgeted funds under the control of the Knox County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

The Knox County Hospital would have been included in the reporting entity under accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board*. However, on March 26, 2014, the Knox County Fiscal Court approved a resolution to transfer hospital real property to the hospital corporation and assign, sell, and transfer Knox County Hospital Corporation to the Knox County Hospital Taxing District for \$23,000,000. The taxing district was created on June 26, 2013 by the Knox County Fiscal Court with bonding capacity based on future tax revenues from the county. Proceeds from the sale of the hospital are to be used to satisfy obligations incurred by the fiscal court from the original purchase of the hospital. Of the proceeds, \$1,000,000 was to be used to satisfy debt reserve requirements for the hospital bond issue. In addition, the Knox County Fiscal Court agreed to pay the bond issuance costs

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the *Government Accounting Standards Board*. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance (LGEA) Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Occupational License Fund - The primary purpose of this fund is to account for the occupational tax collections by the fiscal court on behalf of the county and city. The primary source of receipts for this fund is local business owners.

911 Fund - The primary purpose of this fund is to account for the dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Federal Program Fund - The primary purpose of this fund is to account for activity related to federal grants. The primary source of receipts for this fund is federal grants.

Hospital Sinking Fund - The primary source of this fund is to account for activities related to the debt activity on the General Obligation Refunding Bonds, Series 2005 Non-Refunded Portion. The primary source of receipts for this fund is transfers from the general fund or payments from the Knox County Hospital.

South Kentucky Regional Business Park (SKRBP) Fund - The primary purpose of this fund is to account for activities related to the funding of the Business Park. The primary source of receipts for this fund is local business owners.

Local Emergency Planning Committee (LEPC) Fund - The primary purpose of this fund is to account for emergency planning expenses of the county. The primary source of receipts for this fund is state grants.

Pride Fund - The primary purpose of this fund is to account for activity related to the Kentucky Pride grant. The primary source of receipts for this fund is state grants.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The primary purpose of this fund is to account for receipts from the Administrative Office of the Courts used to offset the County's required payments on its debt related to the Courthouse.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

E. Knox County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Knox County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Knox County Fiscal Court.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Knox County Elected Officials (Continued)

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Local Government Economic Assistance Fund	Occupational License Fund	South Kentucky Regional Business Park Fund	Total Transfers In
General Fund	\$	\$ 1,037,202	\$ 1,928,565	\$ 11,469	\$ 2,977,236
Jail Fund	1,800,000				1,800,000
911 Fund	117,000				117,000
Hospital Sinking Fund	50,000				50,000
Pride Fund	500				500
Total Transfers Out	<u>\$ 1,967,500</u>	<u>\$ 1,037,202</u>	<u>\$ 1,928,565</u>	<u>\$ 11,469</u>	<u>\$ 4,944,736</u>

Reason for transfers:

To move resources from and to the general fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Long-term Debt

A. Prior Year Bonds Defeased

On December 1, 2006, the Knox County Fiscal Court advance refunded the 2004A, 2004B, and a portion of the 2005 series bonds. The bonds will be called on December 1, 2014, December 1, 2015, and June 1, 2015, respectively. Total bonds outstanding as of June 30, 2014 totaled \$11,295,000. As of June 30, 2014, the escrow accounts had a balance of \$8,829,241 with a market value of \$11,815,701. Future debt service payments for these bonds will be paid from the escrow account funded by the General Obligation Refunding Bonds, Series 2006.

B. General Obligation Refunding Bonds, Series 2005 Non-Refunded Portion

On December 1, 2005, the Knox County Fiscal Court issued \$4,250,000 of General Obligation Refunding Bonds for the Knox County Hospital. On December 28, 2006, the fiscal court issued General Obligation Refunding Bonds, Series 2006 which defeased the remainder of the outstanding Series 2005 bonds at that date with the exception of \$985,000. The non-refunded portion of the Series 2005 Bonds has interest rates from 2.8% through 4.5%. The final maturity of the Series 2005 Bonds is December 1, 2035. The bonds outstanding at June 30, 2014 totaled \$850,000. Future principal and interest requirements are:

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

B. General Obligation Refunding Bonds, Series 2005 Non-Refunded Portion (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 20,000	\$ 36,698
2016	20,000	35,938
2017	20,000	35,158
2018	25,000	34,258
2019	25,000	33,245
2020-2024	170,000	146,792
2025-2029	195,000	107,016
2030-2034	260,000	56,689
2035-2036	115,000	5,287
Totals	<u>\$ 850,000</u>	<u>\$ 491,081</u>

C. General Obligation Refunding Bonds, Series 2006

On April 3, 2014, the Knox County Fiscal Court advance refunded the General Obligation Refunding Bonds, Series 2006 with proceeds from the sale of the Knox County Hospital to the Knox County Hospital Taxing District. The bonds will be called on December 1, 2016. Total bonds outstanding as of June 30, 2014 totaled \$14,480,000. As of June 30, 2014, the escrow account had a balance of \$16,310,538.

D. General Obligation Bond Anticipation Note Taxable, Series 2012

On June 5, 2012, the Knox County Fiscal Court issued General Obligation Bond Anticipation Notes Taxable in the amount of \$6,000,000 in order to finance the operation of the Knox County Hospital and to pay off the short-term anticipation note. These notes were paid off June 1, 2014.

E. General Obligation Bond Anticipation Refunding Note Taxable, Series 2014

On May 29, 2014, the Knox County Fiscal Court issued General Obligation Bond Anticipation Refund Notes, Taxable Series 2014 in the amount of \$6,000,000 at an interest rate of 3% with interest to be paid semi-annually on June 1 and December 1, in order to pay off the Taxable General Bond Anticipation Notes which were paid off June 1, 2014. The new note has a maturity date of June 1, 2016. The principal amount as of June 30, 2014 was \$6,000,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$	\$ 181,000
2016	6,000,000	180,000
Totals	<u>\$ 6,000,000</u>	<u>\$ 361,000</u>

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

F. First Mortgage Revenue Refunding Bonds, Series 2010

On February 17, 2010, the Knox County Public Properties Corporation issued \$1,635,000 of First Mortgage Refunding Revenue Bonds to pay off the 1997 Series Bonds which were originally issued for courthouse improvements and construction of the courthouse annex. The 2010 series bonds were issued at various interest rates from 1% through 3.625%. The final maturity date of the 2010 series bonds is September 1, 2021. Total bonds outstanding as of June 30, 2014 were \$1,235,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 140,000	\$ 35,448
2016	145,000	32,486
2017	145,000	28,861
2018	150,000	24,618
2019	155,000	19,965
2020-2022	500,000	27,226
Totals	<u>\$ 1,235,000</u>	<u>\$ 168,604</u>

G. Jail Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority (KLCFCA), an independent corporation agency and instrumentality of Kentucky, issued revenue bonds in the amount of \$276,310 on September 29, 2004 for the purpose of constructing a jail facility. On October 1, 2004, the fiscal court entered into a lease and participation agreement with KLCFCA for \$276,310 principal plus interest of 6.34% on the issue. As of June 30, 2014, the principal balance was \$35,874. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 35,874	\$ 1,137
Totals	<u>\$ 35,874</u>	<u>\$ 1,137</u>

H. Kentucky Area Development District – Vehicles

On September 1, 2005, the Fiscal Court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing vehicles. The principal of the lease was \$495,000 with repayment to be made over an eleven-year period. The lease was issued at various interest rates from 3.4% through 4.5%. As of June 30, 2014, the principal balance was \$30,000. Future principal and interest requirements are:

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

H. Kentucky Area Development District – Vehicles (Continued)

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$	\$ 925
2016	30,000	925
Totals	<u>\$ 30,000</u>	<u>\$ 1,850</u>

I. Hospital Bank Note

On April 28, 2011, the Fiscal Court obtained a line of credit up to \$1,000,000 to finance the operation of the Knox County Hospital. The principal was due in fiscal year 2013; however, the bank extended the due date of the remaining balance of \$997,726 until fiscal year 2014. The interest is payable semiannually at a rate of 6.25%. On May 7, 2014, this debt was satisfied with proceeds from the sale of the Knox County Hospital.

J. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 21,650,000	\$ 6,000,000	\$ 20,800,000	\$ 6,850,000	\$ 20,000
Revenue Bonds	1,370,000		135,000	1,235,000	140,000
Financing Obligations	* 1,127,162		1,061,288	65,874	35,874
Total Long-term Debt	<u>\$ 24,147,162</u>	<u>\$ 6,000,000</u>	<u>\$ 21,996,288</u>	<u>\$ 8,150,874</u>	<u>\$ 195,874</u>

*Financing obligations beginning balance was decreased by \$174 due to error in reporting the hospital bank note in the prior year.

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems (KRS). This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time employees and provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Employee Retirement System (Continued)

The county's contribution for FY 2012 was \$368,039, FY 2013 was \$377,414, and FY 2014 was \$373,333.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

The Knox County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

KNOX COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Deferred Compensation (Continued)

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2014, Knox County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Related Party Transaction

During the fiscal year ended June 30, 2014, the Knox County Fiscal Court paid a total of \$1,083,212 to a business which is owned by the county judge/executive's uncle. Due to the nature of the relationship between the vendor and the county judge/executive, this is considered to be a related party transaction.

Note 9. Prior Period Adjustments

The beginning cash balance for the general fund was increased by \$292,196 due to combining financial activity from various bond issue accounts with the general fund.

The beginning cash balance for the jail fund was increased by \$79 due to a prior year voided check.

The beginning cash balance for the occupational license fund was increased by \$1 due to rounding.

The beginning cash balance for the hospital sinking fund was increased \$23 due to combining the un-refunded portion of the General Obligation Refunding Bonds, Series 2005 with the hospital sinking fund.

The beginning cash balance for the jail commissary fund was increased \$16,877 due to the combining of the jail inmate account, errors in outstanding checks from prior year, and a deposit in transit not included in prior year.

Note 10. Subsequent Events

On October 12, 2016, a Knox County magistrate was indicted by a federal grand jury for having county workers illegally spread gravel on private driveways, directing county workers to install drainage culverts on private property, and using his own pickup truck to deliver gravel from the county stockpile to private driveways. The period covered in the indictment was June 2013 to June 2014.

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KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,539,500	\$ 1,539,500	\$ 1,516,076	\$ (23,424)
Excess Fees	450,000	450,000	457,509	7,509
Licenses and Permits	135,000	135,000	132,675	(2,325)
Intergovernmental	315,500	315,500	387,097	71,597
Charges for Services	1,000	1,000		(1,000)
Miscellaneous	42,000	23,042,000	21,966,628	(1,075,372)
Interest	10,000	10,000	6,522	(3,478)
Total Receipts	<u>2,493,000</u>	<u>25,493,000</u>	<u>24,466,507</u>	<u>(1,026,493)</u>
DISBURSEMENTS				
General Government	1,480,974	1,608,979	1,438,534	170,445
Protection to Persons and Property	44,500	109,320	103,964	5,356
General Health and Sanitation	202,000	3,325,539	3,036,711	288,828
Recreation and Culture	6,000	8,700	6,117	2,583
Debt Service		23,000,000	7,908,161	15,091,839
Administration	3,937,026	858,336	747,105	111,231
Total Disbursements	<u>5,670,500</u>	<u>28,910,874</u>	<u>13,240,592</u>	<u>15,670,282</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(3,177,500)</u>	<u>(3,417,874)</u>	<u>11,225,915</u>	<u>14,643,789</u>
Other Adjustments to Cash (Uses)				
Bond Proceeds			6,000,000	6,000,000
Payments To Escrow Agent			(16,740,256)	(16,740,256)
Transfers From Other Funds	1,816,000	1,816,000	2,977,236	1,161,236
Transfers To Other Funds	(1,865,500)	(1,865,500)	(1,967,500)	(102,000)
Total Other Adjustments to Cash (Uses)	<u>(49,500)</u>	<u>(49,500)</u>	<u>(9,730,520)</u>	<u>(9,681,020)</u>
Net Change in Fund Balance	(3,227,000)	(3,467,374)	1,495,395	4,962,769
Fund Balance - Beginning (Restated)	<u>3,227,000</u>	<u>3,470,974</u>	<u>3,763,170</u>	<u>292,196</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 3,600</u>	<u>\$ 5,258,565</u>	<u>\$ 5,254,965</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,782,432	\$ 3,532,432	\$ 3,374,719	\$ (157,713)
Miscellaneous	210,000	210,000	276,629	66,629
Interest	4,000	4,000	4,066	66
Total Receipts	<u>2,996,432</u>	<u>3,746,432</u>	<u>3,655,414</u>	<u>(91,018)</u>
DISBURSEMENTS				
Roads	2,275,000	4,023,794	3,685,417	338,377
Administration	1,871,432	872,638	312,117	560,521
Total Disbursements	<u>4,146,432</u>	<u>4,896,432</u>	<u>3,997,534</u>	<u>898,898</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,150,000)</u>	<u>(1,150,000)</u>	<u>(342,120)</u>	<u>807,880</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	400,000	400,000		(400,000)
Total Other Adjustments to Cash (Uses)	<u>400,000</u>	<u>400,000</u>		<u>(400,000)</u>
Net Change in Fund Balance	(750,000)	(750,000)	(342,120)	407,880
Fund Balance - Beginning	<u>750,000</u>	<u>750,000</u>	<u>603,416</u>	<u>(146,584)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 261,296</u>	<u>\$ 261,296</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 138,000	\$ 138,000	\$ 137,865	\$ (135)
Charges for Services	61,500	61,500	69,530	8,030
Miscellaneous	21,000	21,000	24,768	3,768
Interest Earned	500	500	356	(144)
Total Receipts	<u>221,000</u>	<u>221,000</u>	<u>232,519</u>	<u>11,519</u>
DISBURSEMENTS				
Protection to Persons and Property	1,875,000	1,966,970	1,686,735	280,235
Debt Service	38,000	38,000	37,079	921
Administration	447,500	356,630	283,133	73,497
Total Disbursements	<u>2,360,500</u>	<u>2,361,600</u>	<u>2,006,947</u>	<u>354,653</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,139,500)</u>	<u>(2,140,600)</u>	<u>(1,774,428)</u>	<u>366,172</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>1,939,500</u>	<u>1,939,500</u>	<u>1,800,000</u>	<u>(139,500)</u>
Total Other Adjustments to Cash (Uses)	<u>1,939,500</u>	<u>1,939,500</u>	<u>1,800,000</u>	<u>(139,500)</u>
Net Change in Fund Balance	(200,000)	(201,100)	25,572	226,672
Fund Balance - Beginning (Restated)	<u>200,000</u>	<u>200,000</u>	<u>56,554</u>	<u>(143,446)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (1,100)</u>	<u>\$ 82,126</u>	<u>\$ 83,226</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,150,000	\$ 1,150,000	\$ 729,086	\$ (420,914)
Interest	3,000	3,000	4,361	1,361
Total Receipts	<u>1,153,000</u>	<u>1,153,000</u>	<u>733,447</u>	<u>(419,553)</u>
DISBURSEMENTS				
Protection to Persons and Property		70,000	70,000	
General Health and Sanitation		100,000	100,000	
Roads	35,000			
Debt Service		35,000	33,235	1,765
Capital Projects	460,000	290,000	97,771	192,229
Administration	474,000	913,449		913,449
Total Disbursements	<u>969,000</u>	<u>1,408,449</u>	<u>301,006</u>	<u>1,107,443</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>184,000</u>	<u>(255,449)</u>	<u>432,441</u>	<u>687,890</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	<u>(600,000)</u>	<u>(600,000)</u>	<u>(1,037,202)</u>	<u>(437,202)</u>
Total Other Adjustments to Cash (Uses)	<u>(600,000)</u>	<u>(600,000)</u>	<u>(1,037,202)</u>	<u>(437,202)</u>
Net Change in Fund Balance	(416,000)	(855,449)	(604,761)	250,688
Fund Balance - Beginning	<u>416,000</u>	<u>855,449</u>	<u>855,449</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 250,688</u>	<u>\$ 250,688</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

OCCUPATIONAL LICENSE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 2,600,000	\$ 2,600,000	\$ 2,621,983	\$ 21,983
Interest	1,000	1,000	1,178	178
Total Receipts	<u>2,601,000</u>	<u>2,601,000</u>	<u>2,623,161</u>	<u>22,161</u>
DISBURSEMENTS				
General Government	785,000	794,301	682,058	112,243
Total Disbursements	<u>785,000</u>	<u>794,301</u>	<u>682,058</u>	<u>112,243</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>1,816,000</u>	<u>1,806,699</u>	<u>1,941,103</u>	<u>134,404</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(1,816,000)	(1,816,000)	(1,928,565)	(112,565)
Total Other Adjustments to Cash (Uses)	<u>(1,816,000)</u>	<u>(1,816,000)</u>	<u>(1,928,565)</u>	<u>(112,565)</u>
Net Change in Fund Balance		(9,301)	12,538	21,839
Fund Balance - Beginning (Restated)		<u>9,301</u>	<u>9,301</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 21,839</u>	<u>\$ 21,839</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	911 FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 300,000	\$ 300,000	\$ 261,192	\$ (38,808)
Intergovernmental	225,000	225,000	210,000	(15,000)
Miscellaneous	500	500	25	(475)
Interest	500	500	362	(138)
Total Receipts	<u>526,000</u>	<u>526,000</u>	<u>471,579</u>	<u>(54,421)</u>
DISBURSEMENTS				
Protection to Persons and Property Administration	437,000	461,700	425,398	36,302
	201,000	186,287	139,761	46,526
Total Disbursements	<u>638,000</u>	<u>647,987</u>	<u>565,159</u>	<u>82,828</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(112,000)</u>	<u>(121,987)</u>	<u>(93,580)</u>	<u>28,407</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>77,000</u>	<u>77,000</u>	<u>117,000</u>	<u>40,000</u>
Total Other Adjustments to Cash (Uses)	<u>77,000</u>	<u>77,000</u>	<u>117,000</u>	<u>40,000</u>
Net Change in Fund Balance	(35,000)	(44,987)	23,420	68,407
Fund Balance - Beginning	<u>35,000</u>	<u>42,487</u>	<u>42,487</u>	<u></u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (2,500)</u>	<u>\$ 65,907</u>	<u>\$ 68,407</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	FEDERAL PROGRAM FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
General Health and Sanitation	\$ 28,000	\$ 28,000	\$	\$ 28,000
Total Disbursements	28,000	28,000		28,000
Net Change in Fund Balance	(28,000)	(28,000)		28,000
Fund Balance - Beginning	28,000	28,000	27,293	(707)
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,293</u>	<u>\$ 27,293</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

HOSPITAL SINKING FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
DISBURSEMENTS				
Debt Service	\$ 58,000	\$ 58,000	\$ 57,447	\$ 553
Total Disbursements	58,000	58,000	57,447	553
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(58,000)	(58,000)	(57,447)	553
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	49,000	49,000	50,000	1,000
Total Other Adjustments to Cash (Uses)	49,000	49,000	50,000	1,000
Net Change in Fund Balance	(9,000)	(9,000)	(7,447)	1,553
Fund Balance - Beginning (Restated)	9,000	9,000	8,644	(356)
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,197	\$ 1,197

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

SOUTH KENTUCKY REGIONAL BUSINESS PARK FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 140,000	\$ 140,000	\$ 169,190	\$ 29,190
Interest	500	500	384	(116)
Total Receipts	<u>140,500</u>	<u>140,500</u>	<u>169,574</u>	<u>29,074</u>
DISBURSEMENTS				
General Government	155,000	155,000	134,571	20,429
Administration	55,500	90,658		90,658
Total Disbursements	<u>210,500</u>	<u>245,658</u>	<u>134,571</u>	<u>111,087</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(70,000)</u>	<u>(105,158)</u>	<u>35,003</u>	<u>140,161</u>
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(11,469)	(11,469)
Total Other Adjustments to Cash (Uses)			<u>(11,469)</u>	<u>(11,469)</u>
Net Change in Fund Balance	(70,000)	(105,158)	23,534	128,692
Fund Balance - Beginning	<u>70,000</u>	<u>105,158</u>	<u>105,158</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 128,692</u>	<u>\$ 128,692</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

LOCAL EMERGENCY PLANNING COMMITTEE

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,000	\$ 1,000	\$ 812	\$ (188)
Total Receipts	<u>1,000</u>	<u>1,000</u>	<u>812</u>	<u>(188)</u>
DISBURSEMENTS				
Protection to Persons and Property	5,500	5,525	1,569	3,956
Total Disbursements	<u>5,500</u>	<u>5,525</u>	<u>1,569</u>	<u>3,956</u>
Net Change in Fund Balance	(4,500)	(4,525)	(757)	3,768
Fund Balance - Beginning	<u>4,500</u>	<u>4,525</u>	<u>4,525</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 3,768</u>	<u>\$ 3,768</u>

KNOX COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	PRIDE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,500	\$ 2,500	\$ 820	\$ (1,680)
Total Receipts	<u>2,500</u>	<u>2,500</u>	<u>820</u>	<u>(1,680)</u>
DISBURSEMENTS				
Roads	4,500	4,500	3,100	1,400
Total Disbursements	<u>4,500</u>	<u>4,500</u>	<u>3,100</u>	<u>1,400</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(2,000)</u>	<u>(2,000)</u>	<u>(2,280)</u>	<u>(280)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			500	500
Total Other Adjustments to Cash (Uses)			<u>500</u>	<u>500</u>
Net Change in Fund Balance	(2,000)	(2,000)	(1,780)	220
Fund Balance - Beginning	<u>2,000</u>	<u>2,000</u>	<u>1,863</u>	<u>(137)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 83</u>	<u>\$ 83</u>

KNOX COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The county judge/executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

KNOX COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

KNOX COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 1,599,145	\$	\$	\$ 1,599,145
Land Improvements		10,000		10,000
Buildings	30,456,800		22,000,000	8,456,800
Vehicles	1,116,128	30,391	253,856	892,663
Equipment	1,888,847	3,300	72,500	1,819,647
Infrastructure	11,452,116	801,307		12,253,423
 Total Capital Assets	 <u>\$ 46,513,036</u>	 <u>\$ 844,998</u>	 <u>\$22,326,356</u>	 <u>\$25,031,678</u>

KNOX COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-10
Infrastructure	\$ 20,000	10-50

Note 2. Assets Held For Resale

In June 2013, two 2014 Mack trucks were purchased with an acquisition cost of \$253,856. These trucks are not included in capital assets, as Knox County does not intend to hold the assets beyond one year. In fiscal year 2014, the fiscal court resold these trucks for \$276,155.

In June 2014, two 2015 Mack trucks were purchased with an acquisition cost of \$261,780. These trucks are not included in capital assets, as Knox County does not intend to hold the assets beyond one year. These trucks were still in the County's possession as of June 30, 2014.

**KNOX COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2014

**KNOX COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2014

Federal Grantor CFDA #	Program Title	Pass-Through Grantor's Number	Expenditures
<u>U. S. Department of Agriculture</u>			
<i>Direct Program</i>			
10.766	Community Facilities Loans and Grants		\$ 50,000
10.923	Emergency Watershed Protection Program	68-5C16-13-035	28,440
		68-5C16-13-048	260,694
		68-5C16-13-049	128,160
		68-5C16-14-006	7,727
		68-5C16-14-025	177,814
	Total Emergency Watershed Protection Program		* 602,835
Total U.S. Department of Agriculture			652,835
<u>U.S. Department of Homeland Security</u>			
<i>Passed-Through State Department of Military Affairs:</i>			
97.042	Emergency Management Performance Grants	PON2 09514000003351	20,867
Total U.S. Department of Homeland Security			20,867
Total Expenditures of Federal Awards			\$ 673,702

*Tested as Major Program

KNOX COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2014

Note 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Knox County, Kentucky and is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. The information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 - Determination of Major Program

A Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2014 or were deemed high risk. There was one Type A program. The major program tested was CFDA #10.923 Emergency Watershed Protection Program.

Note 3 - Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2014.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable J.M. Hall, Knox County Judge/Executive
Members of the Knox County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, 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, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Knox County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement which collectively comprise the Knox County Fiscal Court's financial statement and have issued our report thereon dated September 13, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Knox County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Knox County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Knox County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2014-001, 2014-002, 2014-003, 2014-004, and 2014-006 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Knox County Fiscal Court's financial statement is 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the schedule of findings and questioned costs as items 2014-002, 2014-004, and 2014-005.

County Judge/Executive's Responses to Findings

The Knox County Judge/Executive's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Knox County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

September 13, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable J.M. Hall, Knox County Judge/Executive
Members of the Knox County Fiscal Court

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited the Knox County Fiscal Court's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the Knox County Fiscal Court's major federal programs for the year ended June 30, 2014. The Knox County Fiscal Court's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Knox County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the Knox County Fiscal Court'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 on compliance for each major federal program. However, our audit does not provide a legal determination on the Knox County Fiscal Court's compliance.



Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133
(Continued)

Basis for Qualified Opinion on Emergency Watershed Protection Program

As described in the accompanying schedule of findings and questioned costs, the Knox County Fiscal Court did not comply with requirements regarding CFDA 10.923 Emergency Watershed Protection Program as described in finding numbers 2014-008 for Procurement, 2014-009 for Matching, 2014-010 for Suspension and Debarment and Special Tests and Provisions, and 2014-011 for Procurement. Compliance with such requirements is necessary, in our opinion, for the Knox County Fiscal Court to comply with the requirements applicable to that program.

Qualified Opinion on Emergency Watershed Protection Program

In our opinion, except for the noncompliances described in the Basis for Qualified Opinion, the Knox County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Emergency Watershed Protection Program for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance with the compliance requirements referred to above that 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 item 2014-011. Our opinion on the major federal program is not modified with respect to this matter.

The Knox County Judge/Executive's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Knox County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the Knox County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Knox County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Knox County Fiscal Court's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133
(Continued)

Report on Internal Control over Compliance (Continued)

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-007, 2014-008, 2014-009, and 2014-010 to be material weaknesses.

The Knox County Judge/Executive's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Knox County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

September 13, 2016

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**KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For The Year Ended June 30, 2014

**KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2014

Section I: Summary of Auditor's Results

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Type of auditor's report issued on compliance for major programs: Qualified

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a) ?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

CFDA Numbers and Name of Federal Program or Cluster

CFDA #10.923 Emergency Watershed Protection Program

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000	
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit

2014-001 The Knox County Fiscal Court Lacks Adequate Segregation Of Duties Over Disbursements

The Knox County Fiscal Court lacks adequate segregation of duties over disbursements. The county treasurer posts the disbursements to the ledgers, prepares and signs the checks, and reconciles the bank account monthly. In addition, the county treasurer prepares the financial report. The condition is a result of a limited budget, which restricts the number of employees the fiscal court can hire or delegate duties to. Lack of segregation of duties increases the fiscal court's risk of misappropriation of assets, errors and inaccurate financial reporting. Segregation of duties over disbursements or implementation of compensating controls, due to a limited number of staff, is essential for providing protection to employees in the normal course of performing their duties and can also prevent inaccurate financial reporting and misappropriation of assets. We recommend the fiscal court strengthen internal controls by segregating these duties. If segregation is not possible due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing all source documentation.

County Judge/Executive J.M. Hall's Response: In the future one employee will complete reconciliations monthly, another employee will review there reconciliations and initial that they have reviewed the reconciliations.

2014-002 The Knox County Fiscal Court Did Not Have Strong Internal Controls Over Disbursements

Internal controls over disbursements were not operating as intended during fiscal year 2014. Disbursements were not properly authorized, supporting documentation was not maintained and appropriate, and proper procedures were not followed. As a result of not monitoring controls, the deficiencies below occurred. These deficiencies could result in inaccurate reporting and misappropriation of assets. The following exceptions were noted:

- The fiscal court approved 13 claims which were over the line item in the budget, leaving a negative balance at the time of purchase.
- Twenty-one disbursements were made and not presented to the fiscal court prior to payment or included on the annual standing order to pre-approve certain recurring expenses. Subsequent to payment, they were presented to the fiscal court and approved.
- Eight disbursements were not presented to the fiscal court. This included payments of \$405,700 to a paving contractor, \$159,364 for hospital liability insurance, \$610,000 in contributions to the county hospital and sheriff, \$10,000 for a pass through grant to a local fire department, and a \$174 refund.
- Two disbursements were not paid within 30 days. A late fee of \$4 was incurred on one of the invoices.
- Seventeen instances of no documentation to support contributions made to the hospital and the sheriff's office. In addition, 16 of these disbursements were incorrectly posted as capital assets.
- Five credit card disbursements totaling \$541 did not have a receipt or invoice to support the transactions.
- Six credit card purchase orders were dated after the invoice date.
- Sales tax of \$2 was paid on a credit card purchase for windshield wipers.
- Hauling tickets were not signed by road department personnel for gravel documenting the delivery date and quantity.
- Thirty-three hauling tickets for gravel were missing.
- Twenty-seven gas receipts tested were not maintained to support the monthly statement.
- One disbursement did not have a purchase order attached to the invoice.

**KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)**

Section II: Findings - Financial Statement Audit (Continued)

2014-002 The Knox County Fiscal Court Did Not Have Strong Internal Controls Over Disbursements
(Continued)

- Twenty out of 87 invoices tested had purchase orders dated after the date of the invoices or receipts; therefore, items could have been ordered or services rendered without prior approval to ensure adequate funds were available in each account.
- Purchase orders attached to six gravel invoices tested totaling \$344,191 did not agree to the purchase order number on the haul tickets.
- One disbursement totaling \$36,498 was for gabion baskets purchased in advance and stored at the vendor with the equipment bid to be used on future jobs. The fiscal court does not have a system for tracking the inventory.

Proper internal controls over disbursements are important to ensure purchase orders are created when sufficient funds are available, are presented to the fiscal court, include proper supporting documentation, and are paid within 30 days. KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. Per the *County Budget Preparation and State Local Finance Officer Policy Manual*, issued by the Department for Local Government, "Purchases shall not be made without approval by the judge/executive (or designee) and/or a department head. ... Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made." It also specifies "no prepayment for goods or services" in accord with Section 3 of the Kentucky Constitution.

KRS 68.300 states, in part, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." KRS 68.275 requires claims within budget line items and authorized by the fiscal court be paid by the county judge/executive and co-signed by the county treasurer. In addition, KRS 68.275 also requires the county judge/executive to present all claims to the fiscal court for review prior to payment unless the expenses are included on a standing order adopted by the fiscal court to preapprove the payment of certain claims such as monthly payroll and utility expenses. Furthermore, KRS 65.140 requires invoices to be paid within 30 days of being received. We recommend the fiscal court implement proper internal controls over disbursements and ensure they are operating effectively.

County Judge/Executive J.M. Hall's Response: In the future we will try to have all disbursements pre-approved and the fiscal court has implemented more internal controls over disbursements in that the County Treasurer is reviewing the disbursements made by the Finance Officer to assure disbursements are with the approved amounts. To address the first three points specifically.

1. *We agree this happened with appropriations only due to items being more expensive than expected but were adjusted prior to payment and no actual accounts were ever in a negative situation.*
2. *Most of these incidents were situations where the invoices were required to be paid prior to the next meeting where the items were reconciled.*
3. *The disbursement to the paving contractor was pursuant to a contract that had been approved by the Court and the Transportation Department. The other disbursements were transfers to other entities owned by the County.*

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2014-003 The Knox County Fiscal Court Did Not Have Adequate Internal Controls Over Gravel Inventory

The Knox County Fiscal Court does not have adequate internal controls over gravel purchased and stored at the county's road department. The road materials are contained within a fenced area to deter unauthorized access, and the county maintains a log for gravel that lists the date and location of job sites. However, the log does not document the gravel hauled to the road department from the rock quarry, making it impossible to estimate how much gravel should be in the stockpile. The fiscal court's lack of controls has created an opportunity for misappropriation of the county's assets to occur. When controls are not in place to protect the county's resources, the risk of fraud increases. Good internal controls dictate that the fiscal court have better recordkeeping over the gravel stockpile and log gravel activity. We recommend the county maintain a log to track the gravel hauled to the road department and also track the gravel hauled from the road department to jobsites. This would allow an estimate of gravel on hand and help determine if a shortage exists.

County Judge/Executive J.M. Hall's Response: The Fiscal Court has now assigned an employee to monitor and log all incoming and outgoing materials including gravel.

2014-004 The Knox County Fiscal Court Did Not Follow Proper Bid Laws And Regulations

The Knox County Fiscal Court did not properly bid and made payments to three vendors for purchases over \$20,000 in fiscal year 2014. These disbursements were for a sheriff's vehicle purchased for \$22,891, a bridge constructed for \$59,638, and two Mack trucks purchased for the road department for \$261,780. In addition, one of the federal projects for the Emergency Watershed Protection (EWP) program totaling \$31,600 was not bid or declared an emergency in accordance with state procurement laws, which would have allowed the fiscal court to waive competitive bid requirements.

The fiscal court bid some purchases over \$20,000, but sufficient internal controls were not in place over the procurement process to ensure items were not purchased from vendors without first advertising or receiving bids when necessary. By limiting competition or not receiving bids at all, the fiscal court may not get the best price available. Competitive bidding ensures the fiscal court procures equipment and services at the best price available. The EWP program requires projects be completed within 10 days. This requirement does not allow enough time for the bid process as outlined in the county's administrative code. The emergency management director contacts the Natural Resources Conservation Service (NCRS) to determine if the county qualifies for assistance without management's approval. Therefore, this was probably an oversight.

KRS 424.260(1) states, "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." According to KRS 424.260(4), the requirement to advertise for bids does not apply in an emergency if the county judge/executive has properly certified that an emergency exists and filed a copy of the certificate of emergency.

We recommend the fiscal court follow proper bid laws and regulations by ensuring all purchases of \$20,000 or more be made in compliance with KRS 424.260. We also recommend the fiscal court implement adequate internal controls to ensure all federal projects over \$20,000 are properly bid or a local emergency is declared and filed if necessary.

**KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)**

Section II: Findings - Financial Statement Audit (Continued)

2014-004 The Knox County Fiscal Court Did Not Follow Proper Bid Laws And Regulations (Continued)

County Judge/Executive J.M. Hall's Response: If an emergency has not been declared, the Fiscal Court will bid all purchases required by KRS 424.260.

2014-005 The Knox County Fiscal Court Did Not Ensure The Same Level Of Health Insurance Benefits Are Provided To All County Employees As Stated In Kentucky Attorney General Opinion (OAG) 94-15

County employees are not receiving the same level of health insurance benefits. Elected officials are receiving county-paid family coverage while others are paying for the extra cost for family coverage. During fiscal year ended June 30, 2014, the county paid as much as \$931 per month per employee for additional costs for the family plan over the single plan. The fiscal court believes they can separate elected officials and county employees. According to the County Administrative Code, "The County pays the premium for all individual health insurance policies offered by the county; except, however, the county will pay the premium for family health insurance plans for all elected county officials." As a result of different levels of health insurance benefits among the employees, it appears to be discrimination among the employees. In addition, county funds are being spent for the personal benefit of some employees which could have been expended on other necessary items for the benefit of the county. OAG 94-15 states, "The basic statute providing for governmentally funded health coverage (KRS 79.080) for public employees does not provide for one level of coverage for officers, and another level for employees. Accordingly, we believe such differing coverage would not be lawful as not authorized by statute." We recommend the fiscal court follow the advice as expressed in OAG 94-15 and ensure the same level of health insurance coverage for all employees. The fiscal court should update the County Administrative Code to comply with KRS 79.080 and OAG 94-15.

County Judge/Executive J.M. Hall's Response: All county employees are equal and all county elected officials are equal.

2014-006 The Knox County Jail Commissary Lacks Adequate Segregation Of Duties Over Receipts And Disbursements

Due to the limited number of employees, the jail has a lack of segregation of duties over receipts and disbursements. The bookkeeper prepares deposits and posts these deposits to the receipts ledger. The bookkeeper also prepares and signs checks and posts these disbursements to the disbursements ledger. This condition is a result of a limited budget, which restricts the number of employees the county can hire or delegate duties to. Lack of segregation of duties increases the risk of misappropriation of assets, errors, and inaccurate financial reporting. Adequate segregation of duties would prevent the same person from having a significant role in these incompatible functions. In addition, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of business. We recommend the jailer implement strong oversight in these areas, either by having an employee independent of those functions or by the jailer review transactions and initial the documentation.

County Judge/Executive J.M. Hall's Response: See Jailer's response.

County Jailer Mary Hammons' Response: We will work on trying to segregate the duties. We have already made some changes.

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit

2014-007 The Knox County Fiscal Court Failed To Implement Adequate Internal Controls Over Federal Funds

Federal Program: CFDA 10.923 Emergency Watershed Protection Program

Name of Federal Agency: U.S. Department of Agriculture

Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles; Cash Management; Matching; Period of Availability; Procurement, Suspension and Debarment; Special Test and Provisions

Type of Finding: Material Weakness

Amount of Questioned Costs: \$0

The Knox County Fiscal Court failed to implement adequate internal controls over federal funds. The fiscal court appointed the emergency management director to act as grant administrator over the Emergency Watershed Protection (EWP) project awards totaling \$602,835. The fiscal court approved federal disbursements without knowing if the costs were allowable. Additionally, the fiscal court did not maintain documentation of all costs for each federal project. One vendor performed the construction for all the projects; however, there were additional costs for materials such as rock, gabion baskets, and grout excluded from the total project costs.

The fiscal court relied solely on the designated employee to monitor all applicable federal compliance requirements and had no controls in place to ensure they were met. The grant administrator was not properly trained and was not familiar with all the compliance requirements. He relied on the Natural Resource Conservation Service (NRCS) to ensure compliance with project agreements. The lack of monitoring resulted in material noncompliance with three federal compliance requirements: procurement, suspension and debarment; matching; and special tests and provisions. The Single Audit opinion over compliance has been modified due to the direct and material impact of these noncompliances. These noncompliances could result in the fiscal court being responsible for reimbursing these funds to the federal government and jeopardize the fiscal court's future federal funding.

Per grant project agreement Section B.16., "the sponsor will pay any contractor, subcontractor for any services secured by the sponsor, and as provided in the contract(s). Submit copies of billings for reimbursement to NRCS on Form SF-270, Request for Advance or Reimbursement. All billings shall include supporting documentation to substantiate associated project costs."

OMB Circular No. A-133, §.300(b) states the auditee shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. We recommend the fiscal court implement adequate internal controls to ensure federal compliance requirements are met.

County Judge/Executive J.M. Hall's Response: The grant administrator will attend the next available training. The Fiscal Court will maintain better logs and records of the expenses associated with each federally funded project and any project overruns will result in requests for grant amendments. The Fiscal Court will on all future federally funded projects maintain records of all county resources used, including manpower, materials and equipment.

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit (Continued)

2014-008 The Knox County Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement

Federal Program: CFDA 10.923 Emergency Watershed Protection Program

Name of Federal Agency: U.S. Department of Agriculture

Compliance Requirements: Procurement

Type of Finding: Material Weakness

Amount of Questioned Costs: \$0

Opinion: The Knox County Fiscal Court did not comply with federal requirements regarding this compliance requirement resulting in a Qualified Opinion.

The Knox County Fiscal Court failed to implement internal controls to ensure compliance with procurement requirements. The fiscal court was unaware of all the compliance requirements and responsibilities.

As a result, the following deficiencies were noted:

- There was no evidence that the fiscal court reviewed invoices for allowable activities and costs and compared to final cost estimates prepared by the Natural Resources Conservation Service (NRCS).
- The fiscal court did not track all federal project costs and did not include all project costs on the requests for reimbursement. The federal government only reimburses for costs up to the amount included in the grant agreement. If the overall cost of a project exceeds the original estimates, the sponsor must absorb those additional costs. Due to the lack of policy and procedures over program procurement, the fiscal court can not readily determine the entire cost of each project including in-kind contributions. In addition, if the project exceeded federal funding provided, the fiscal court could have submitted a request for additional funds in an attempt to reduce the amount of costs the fiscal court paid for the project.
- The fiscal court did not request itemized statements of charges from the vendor. The vendor invoice included charges for equipment hours that were not verified or properly supported.
- Contracts were not required with the vendor to ensure compliance with special provisions, convey expectations, and aid in controlling budget cost estimates. The budget in the initial project description is recognized to be an estimate, so some variation from estimated costs are expected and not unusual. However, if significant cost changes occur, formal amendments to the project should be required.

Per the instructions for Form 270 Request for Advance or Reimbursement for Line 11a, “[e]nter program outlays to date (net of refunds, rebates, and discounts), in the appropriate columns. For requests prepared on a cash basis, outlays are the sum of actual cash disbursements for good and services, the amount of indirect expenses charged, the value of in-kind contributions applied, and the amount of cash advances and payments made to subcontractors and subrecipients.”

OMB Circular No. A-133 §.300(b) states the auditee shall maintain internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

The fiscal court should establish policies and procedures to help ensure compliance with procurement requirements. Specifically, we recommend the fiscal court establish sufficient procedures to identify how to accumulate data for federal reports, and supervisors should perform a review over reimbursement requests to ensure accurate amounts are reported and supporting documentation is maintained. The fiscal court should keep an on-going file of expenses associated with each project to track all costs incurred and should maintain

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit (Continued)

2014-008 The Knox County Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement (Continued)

documentation of any in-kind contributions. We also recommend the fiscal court monitor project costs for any project overruns and request amendments if necessary.

County Judge/Executive J.M. Hall's Response: The grant administrator will attend the next available training. The Fiscal Court will maintain better logs and records of the expenses associated with each federally funded project and any project overruns will result in requests for grant amendments. The Fiscal Court will on all future federally funded projects maintain records of all county resources used, including manpower, materials and equipment.

2014-009 The Knox County Fiscal Court Did Not Have Sufficient Internal Controls To Ensure Federal Requirements For Matching Were Met

Federal Program: CFDA 10.923 Emergency Watershed Protection Program

Name of Federal Agency: U.S. Department of Agriculture

Compliance Requirements: Matching

Type of Finding: Material Weakness

Amount of Questioned Costs: \$33,621

Opinion: The Knox County Fiscal Court did not comply with federal requirements regarding this compliance requirement resulting in a Qualified Opinion.

The Knox County Fiscal Court did not have sufficient internal controls to ensure federal requirements for matching were met. The fiscal court is required to provide a ten percent match of the total federal funds expended for the Emergency Watershed Protection Program. This match can be met through cash and/or in-kind contributions. The fiscal court met the matching requirement with cash and in-kind contributions; however, they did not provide supporting documentation for \$33,621 of in-kind contributions such as payroll records and detailed equipment logs. In addition, cash contributions including rock provided by the county and materials purchased from other vendors were not tracked and included in the matching totals. We are questioning these costs as unallowable charges due to the lack of supporting documentation.

The designated employee responsible for determining matching contributions was not aware he needed to maintain support for in-kind contributions. In addition, there was no supervisory review of matching activities performed to assess the accuracy and allowability of transactions. By not properly tracking, documenting, or reporting that the matching requirements are being met, the fiscal court is at risk of having to return federal funds. This also could jeopardize the fiscal court's future federal funding.

According OMB Circular A-110 2 CFR §215.23(a), matching funds must be verifiable from the fiscal court's records, not used as a match for any other federal program, necessary and reasonable to achieve program objectives, and allowable under the applicable cost principles.

We recommend the fiscal court develop and follow internal controls over disbursements used to meet the matching requirement to ensure it complies with the federal grant agreement. In addition, we recommend the fiscal court maintain supporting documentation for in-kind contributions such as basis for labor rates, support of salaries and wages or confirmation from other organizations for services provided by their employees, basis for equipment rates, and documentation of equipment used to perform eligible work.

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit (Continued)

2014-009 The Knox County Fiscal Court Did Not Have Sufficient Internal Controls To Ensure Federal Requirements For Matching Were Met (Continued)

County Judge/Executive J.M. Hall's Response: The grant administrator will attend the next available training. The Fiscal Court will maintain better logs and records of the expenses associated with each federally funded project and any project overruns will result in requests for grant amendments. The Fiscal Court will on all future federally funded projects maintain records of all county resources used, including manpower, materials and equipment.

2014-010 The Knox County Fiscal Court Did Not Implement Adequate Internal Controls Over Suspension And Debarment And Special Tests And Provisions

Federal Program: CFDA 10.923 Emergency Watershed Protection Program

Name of Federal Agency: U.S. Department of Agriculture

Compliance Requirements: Suspension and Debarment; Special Tests and Provisions

Type of Finding: Material Weakness

Amount of Questioned Costs: \$0

Opinion: The Knox County Fiscal Court did not comply with federal requirements regarding this compliance requirement resulting in a Qualified Opinion.

The Knox County Fiscal Court did not implement adequate internal controls over federal compliance requirements for suspension and debarment and the special tests and provisions outlined in the attachments to the grant agreements. The fiscal court appointed the emergency management director to act as grant administrator and placed complete reliance upon this employee for ensuring compliance with federal requirements and the grant agreements. The fiscal court did not provide certification regarding lobbying to ensure federal funds were not paid to any person for influencing or attempting to influence anyone in connection with the awarding of any contract. Also, no documentation existed to show the fiscal court verified whether vendors were suspended or debarred from receiving federal funds. The fiscal court paid one vendor \$602,835 for construction services for five different projects under the Emergency Watershed Protection (EWP) program. The project files did not include all vendor invoices for materials, supporting documentation to substantiate in-kind contributions, and the final cost estimates prepared by the local federal agency.

There was no contract or written documentation with the contractor to ensure compliance with the special provisions included in attachment B of the project agreements. Per this attachment, the fiscal court should have notified the contractor to comply with the standard federal equal employment opportunity construction contract specifications and provide certification of nonsegregated facilities. According to the project agreement section B.13, "the sponsor will ensure that all contracts for design and construction services will be procured in accordance with procedures prescribed in the Code of Kentucky and Federal regulations application to the Sponsor, including the provisions contained in Attachment B to the agreement."

OMB Circular No. A-133 §.300(b) states the auditee shall maintain internal controls over the federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulation, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs. Noncompliances with these special provisions can result in the fiscal court being responsible for repaying federal funds. This also could jeopardize the fiscal court's future federal funding. We recommend the fiscal court implement adequate internal controls to ensure federal compliance requirements are met.

KNOX COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2014
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit (Continued)

2014-010 The Knox County Fiscal Court Did Not Implement Adequate Internal Controls Over Suspension And Debarment And Special Tests And Provisions (Continued)

County Judge/Executive J.M. Hall's Response: Prior to using any contractors on federally funded projects, the grant administrator will search readily available databases to insure that the contractor has not been previously disbarred for non-compliance with federal regulations. The grant administrator will also insure compliance with federal laws and regulations.

2014-011 The Knox County Fiscal Court Did Not Follow Proper Bid Laws And Regulations (See Financial Statement Finding 2014-004)

Federal Program: CFDA 10.923 Emergency Watershed Protection Program

Name of Federal Agency: U.S. Department of Agriculture

Compliance Requirements: Procurement

Type of Finding: Noncompliance

Amount of Questioned Costs: \$0

Opinion: The Knox County Fiscal Court did not comply with federal requirements regarding this compliance requirement resulting in a Qualified Opinion.

Section IV: Summary Schedule of Prior Audit Findings

None.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

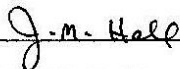
KNOX COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2014**

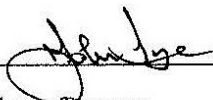
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE
KNOX COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The Knox County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



County Judge/Executive



County Treasurer

