

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

**For The Fiscal Year Ended
June 30, 2015**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY
AUDIT OF THE
UNION COUNTY FISCAL COURT

June 30, 2015

The Auditor of Public Accounts has completed the audit of the Union County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Union County Fiscal Court. In accordance with OMB Circular A-133, we have issued modified opinions on the compliance requirements that are applicable to the Union County Fiscal Court's major federal programs: Community Development Block Grants/State's Program (CFDA #14.228) and Water and Waste Disposal Systems for Rural Communities (CFDA #10.760).

Financial Condition:

The Union County Fiscal Court had total receipts of \$9,327,617 and disbursements of \$16,954,231 in fiscal year 2015. This resulted in a total ending fund balance of \$5,476,654, which is a decrease of \$4,493,540 from the prior year.

Report Comments:

- 2015-001 The Fiscal Court Lacks Segregation Of Duties Over Cash Receipts, Disbursements, Transaction Posting, And Bank Reconciliations
- 2015-002 Internal Controls Over Disbursements And Credit Cards Were Weak
- 2015-003 The Fiscal Court Failed To Follow Proper Purchasing Procedures For Small Contracts And Purchases
- 2015-004 The Fiscal Court Failed To Spend Coal Severance Funds Properly
- 2015-005 The Fiscal Court Did Not Implement Internal Controls Over Payroll, Properly Compensate Employees For Overtime, And Properly Account For Hours Worked
- 2015-006 The Union County Jail Lacks Adequate Segregation Of Duties Over The Accounting Functions
- 2015-007 The Union County Jail Did Not Make Daily Deposits
- 2015-008 The Jailer Did Not Submit An Accurate Year-End Commissary Report To The County Treasurer
- 2015-009 The Fiscal Court Failed To Maintain Adequate Internal Controls Over Capital Asset Record Maintenance
- 2015-010 The Fiscal Court Lacks Adequate Controls Over The Off-Site Receipt Collections And Deposits
- 2015-011 The Fiscal Court Failed To Implement Internal Controls That Are Adequate To Ensure The Schedule Of Expenditures Of Federal Awards Is Accurately Prepared
- 2015-012 The Fiscal Court Failed To Implement Adequate Internal Controls Over Accounting Records Of Federal Programs
- 2015-013 The Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement, Suspension, And Debarment
- 2015-014 The Fiscal Court Failed To Implement Adequate Internal Controls Over Davis Bacon Requirements And Had \$57,202 Of Questioned Labor Costs
- 2015-015 The Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement, Suspension, And Debarment

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 Jody Jenkins, Union County Judge/Executive
Members of the Union 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 Union County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Union County Fiscal Court's financial statement as listed in the table of contents.

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.

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



To the People of Kentucky
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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1 of the financial statement, the financial statement is prepared by the Union 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 Union County Fiscal Court as of June 30, 2015, 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 Union County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of the Union County Fiscal Court. The Budgetary Comparison Schedules, Capital Asset Schedule, and the Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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.

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

Supplementary Information (Continued)

The accompanying 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 as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2016 on our consideration of the Union 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 Union 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:

- 2015-001 The Fiscal Court Lacks Segregation Of Duties Over Cash Receipts, Disbursements, Transaction Posting, And Bank Reconciliations
- 2015-002 Internal Controls Over Disbursements And Credit Cards Were Weak
- 2015-003 The Fiscal Court Failed To Follow Proper Purchasing Procedures For Small Contracts And Purchases
- 2015-004 The Fiscal Court Failed To Spend Coal Severance Funds Properly
- 2015-005 The Fiscal Court Did Not Implement Internal Controls Over Payroll, Properly Compensate Employees For Overtime, And Properly Account For Hours Worked
- 2015-006 The Union County Jail Lacks Adequate Segregation Of Duties Over The Accounting Functions
- 2015-007 The Union County Jail Did Not Make Daily Deposits
- 2015-008 The Jailer Did Not Submit An Accurate Year-End Commissary Report To The County Treasurer
- 2015-009 The Fiscal Court Failed To Maintain Adequate Internal Controls Over Capital Asset Record Maintenance
- 2015-010 The Fiscal Court Lacks Adequate Controls Over The Off-Site Receipt Collections And Deposits
- 2015-011 The Fiscal Court Failed To Implement Internal Controls That Are Adequate To Ensure The Schedule Of Expenditures Of Federal Awards Is Accurately Prepared
- 2015-012 The Fiscal Court Failed To Implement Adequate Internal Controls Over Accounting Records Of Federal Programs

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

- 2015-013 The Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement, Suspension, And Debarment
- 2015-014 The Fiscal Court Failed To Implement Adequate Internal Controls Over Davis Bacon Requirements And Had \$57,202 Of Questioned Labor Costs
- 2015-015 The Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement, Suspension, And Debarment

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

November 2, 2016

UNION COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Jody L. Jenkins	County Judge/Executive
Gary Day	Magistrate
Jerri Floyd	Magistrate
Chuck Voss	Magistrate
Joe Wells	Magistrate
Joe Clements	Magistrate

Other Elected Officials:

Brucie Moore	County Attorney
Shawn Elder	Curent Jailer
Cathy Smith	Former Jailer
Trey Peak	County Clerk
Sue Beaven	Circuit Court Clerk
Mickey Arnold	Sheriff
Clay Wells	Property Valuation Administrator
Steven Shouse	Coroner

Appointed Personnel:

Lissa Gibson	County Treasurer
Krystal Steward	Finance Officer

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

For The Year Ended June 30, 2015

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

For The Year Ended June 30, 2015

	<u>Budgeted Funds</u>		
	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
RECEIPTS			
Taxes	\$ 2,230,990	\$ 48	\$
In Lieu Tax Payments	77,249		
Excess Fees	305,472		
Licenses and Permits	14,478		
Intergovernmental	195,501	1,599,479	287,525
Charges for Services			27,647
Miscellaneous	64,065	53,198	21,518
Interest	20,172	908	5
Total Receipts	<u>2,907,927</u>	<u>1,653,633</u>	<u>336,695</u>
DISBURSEMENTS			
General Government	2,156,879		
Protection to Persons and Property	115,386		969,810
General Health and Sanitation			
Social Services	1,418		
Recreation and Culture			
Roads		2,105,772	
Bus Services			
Debt Service		3,204,940	
Capital Projects	100,000	2,646,851	
Administration	520,264	266,695	347,594
Total Disbursements	<u>2,893,947</u>	<u>8,224,258</u>	<u>1,317,404</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>13,980</u>	<u>(6,570,625)</u>	<u>(980,709)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds		3,000,000	
Payroll Revolving Account	33,074		
Borrowed Money	100,000		
Transfers From Other Funds	2,134,338	2,891,992	985,000
Transfers To Other Funds	(2,296,218)	(2,880,538)	
Total Other Adjustments to Cash (Uses)	<u>(28,806)</u>	<u>3,011,454</u>	<u>985,000</u>
Net Change in Fund Balance	(14,826)	(3,559,171)	4,291
Fund Balance - Beginning	2,046,570	5,024,360	10,702
Fund Balance - Ending	<u>\$ 2,031,744</u>	<u>\$ 1,465,189</u>	<u>\$ 14,993</u>
Composition of Fund Balance			
Bank Balance	\$ 1,350,250	\$ 1,504,340	\$ 16,377
Less: Outstanding Checks	(118,506)	(39,151)	(1,384)
Certificates of Deposit	800,000		
Fund Balance - Ending	<u>\$ 2,031,744</u>	<u>\$ 1,465,189</u>	<u>\$ 14,993</u>

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

UNION COUNTY
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN FUND BALANCES - REGULATORY BASIS
 For The Year Ended June 30, 2015
 (Continued)

Budgeted Funds				
Local Government Economic Assistance Fund	State Grants Fund	Federal Grants Fund	County Bond Fund	Garden Fund
\$ 146,644	\$	\$	\$	\$
3,195,317		631,720		9,348
166,079				
90,415				25,000
5,661			174	
<u>3,604,116</u>		<u>631,720</u>	<u>174</u>	<u>34,348</u>
380,475				
781,473	20,000			
378,459		631,720		
621,403				
612,536				16,941
93,555				
			79,761	
503,671				
177,813			38	
<u>3,549,385</u>	<u>20,000</u>	<u>631,720</u>	<u>79,799</u>	<u>16,941</u>
<u>54,731</u>	<u>(20,000)</u>		<u>(79,625)</u>	<u>17,407</u>
800,000		30,000	190,680	25,000
(1,843,800)			(86,454)	(25,000)
<u>(1,043,800)</u>		<u>30,000</u>	<u>104,226</u>	
(989,069)	(20,000)	30,000	24,601	17,407
2,804,491	20,498	1		4,109
<u>\$ 1,815,422</u>	<u>\$ 498</u>	<u>\$ 30,001</u>	<u>\$ 24,601</u>	<u>\$ 21,516</u>
\$ 1,470,077	\$ 498	\$ 30,001	\$ 29,660	\$ 22,484
(54,655)			(5,059)	(968)
400,000				
<u>\$ 1,815,422</u>	<u>\$ 498</u>	<u>\$ 30,001</u>	<u>\$ 24,601</u>	<u>\$ 21,516</u>

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

UNION COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

	<u>Budgeted Funds</u>	<u>Unbudgeted Fund</u>	
	<u>Debt Service Fund</u>	<u>Jail Commissary Fund</u>	<u>Total Funds</u>
RECEIPTS			
Taxes	\$	\$	\$ 2,377,682
In Lieu Tax Payments			77,249
Excess Fees			305,472
Licenses and Permits			14,478
Intergovernmental	89,440		6,008,330
Charges for Services			193,726
Miscellaneous		69,564	323,760
Interest			26,920
Total Receipts	<u>89,440</u>	<u>69,564</u>	<u>9,327,617</u>
DISBURSEMENTS			
General Government			2,537,354
Protection to Persons and Property			1,886,669
General Health and Sanitation			1,010,179
Social Services			622,821
Recreation and Culture		60,767	690,244
Roads			2,105,772
Bus Services			93,555
Debt Service	160,010		3,444,711
Capital Projects			3,250,522
Administration			1,312,404
Total Disbursements	<u>160,010</u>	<u>60,767</u>	<u>16,954,231</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(70,570)</u>	<u>8,797</u>	<u>(7,626,614)</u>
Other Adjustments to Cash (Uses)			
Bond Proceeds			3,000,000
Payroll Revolving Account			33,074
Borrowed Money			100,000
Transfers From Other Funds	75,000		7,132,010
Transfers To Other Funds			(7,132,010)
Total Other Adjustments to Cash (Uses)	<u>75,000</u>		<u>3,133,074</u>
Net Change in Fund Balance	4,430	8,797	(4,493,540)
Fund Balance - Beginning	41,341	18,122	9,970,194
Fund Balance - Ending	<u>\$ 45,771</u>	<u>\$ 26,919</u>	<u>\$ 5,476,654</u>
Composition of Fund Balance			
Bank Balance	\$ 45,771	\$ 28,140	\$ 4,497,598
Less Outstanding Checks		(1,221)	(220,944)
Certificates of Deposit			1,200,000
Ending Fund Balance	<u>\$ 45,771</u>	<u>\$ 26,919</u>	<u>\$ 5,476,654</u>

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

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TO THE FINANCIAL STATEMENT**

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UNION COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Union County includes all budgeted and unbudgeted funds under the control of the Union 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.

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, 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 90 days following April 15.

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.

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

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 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.

State Grants Fund - The primary purpose of this fund is to account for the ambulance grant received from the state.

Federal Grant Fund - The primary purpose of this fund is to account for any federal grant receipts and disbursements of the county. The primary source of receipts for this fund is federal grants.

Garden Fund - The primary purpose of this fund is to account for the Grow Appalachia Grant receipts and disbursements of the county.

Debt Service Fund - The primary purpose of this fund is to account for debt service requirements of the General Obligation Refunding Bond, Series 2003.

County Bond Fund - The primary purpose of this fund is to account for debt service requirements of the Kentucky Association of Counties Leasing Trust Program (KACoLT) financing obligation and the Commonwealth of Kentucky, Department for Local Government (DLG) financing obligation.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1). The profits generated from the sale of 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.

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Budgetary Information (Continued)

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.

E. Union County Elected Officials

Kentucky law provides for election of the officials listed below from the geographic area constituting Union 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 the Union County Fiscal Court.

- 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 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.

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

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, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	LGEA Fund	Garden Fund	County Bond Fund	Total Transfers In
General Fund	\$	\$2,080,538	\$ 28,800	\$ 25,000	\$	\$2,134,338
Road Fund	2,080,538		800,000		11,454	2,891,992
Jail Fund			985,000			985,000
LGEA Fund		800,000				800,000
Federal Grant Fund			30,000			30,000
Garden Fund	25,000					25,000
County Bond Fund	190,680					190,680
Debt Service Fund					75,000	75,000
Total Transfers Out	<u>\$2,296,218</u>	<u>\$2,880,538</u>	<u>\$1,843,800</u>	<u>\$ 25,000</u>	<u>\$ 86,454</u>	<u>\$7,132,010</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.

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 4. Receivable

The Union County Fiscal Court (lender) entered into a promissory note with a local nursing home (borrower) to pay the Union County Fiscal Court the principal amount of \$1,000,000 or so much as may be outstanding, together with interest on the unpaid outstanding principal balance of each advance. Interest shall be calculated from the date of each advance until repayment is made in full. The borrower will pay interest at an annual rate of four and one half percent. If, in October 2028, the borrower still owes an amount under the note, the borrower will pay those amounts in full on that date, which is called the "Maturity Date." During the first 24 months, beginning with the first advance on the note, the borrower will make interest payments only. Beginning on the 25th month following the first advance, the borrower will pay principal and interest by making a payment each month. The balance at June 30, 2010 was \$1,000,000. The payments and interest accrual were suspended after February 1, 2011 on mutual oral agreement between both parties. The deferment of payments will continue until such time as the county requests that payments resume. In the event the county makes a request for the payment to resume, the local nursing home will be notified not less than 60 days prior to the first payment being due to the county. Principal outstanding after the February 1, 2011 payment was \$999,751. The receivable as of June 30, 2015 totals \$999,751.

Note 5. Long-term Debt

A. General Obligation Refunding Bonds, Series 2003

On March 19, 2003, the Union County Fiscal Court issued General Obligation Refunding Bonds, Series 2003 in the amount of \$1,630,000. The bonds were dated February 1, 2003, payable semi-annually on March 1 and September 1, 2003. The interest rate on the bonds ranges from 1.00% to 3.70%. The bonds were issued in denominations of \$5,000 each or integral multiples thereof and mature at various dates beginning February 1, 2004 through February 1, 2015. The bonds were subject to early redemption prior to maturity. Principal outstanding as of June 30, 2015 was \$60,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 60,000	\$ 1,110
Totals	\$ 60,000	\$ 1,110

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

B. Financing Obligations – Economic Development

On September 22, 2008, the Union County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program (KACoLT) in the sum of \$1,000,000 at a 4.007% effective interest rate. The financing obligation is to finance the construction of a nursing home facility located in Union County. The maturity date of the obligation is January 20, 2029. The balance of the obligation at June 30, 2015 was \$740,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 40,000	\$ 30,410
2017	45,000	28,627
2018	45,000	26,764
2019	45,000	24,895
2020	50,000	22,981
2021-2025	265,000	82,635
2026-2029	250,000	23,490
Totals	<u>\$ 740,000</u>	<u>\$ 239,802</u>

C. Series 2013, General Obligation Improvement Bonds (Road Project)

On December 3, 2013, the Union County Fiscal Court issued General Obligation Improvement Bonds (Road Project), Series 2013. The Bonds were dated December 3, 2013, payable semi-annually on March 1 and September 1, beginning March 1, 2014. The interest rate on the bonds is 2.50% to 3.65%. The purpose of financing is (i) the construction of country road improvements, (ii) accrued or capitalized interest, and (iii) cost of issuance. The balance of the obligation at June 30, 2015 was \$1,900,000. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 110,000	\$ 54,538
2017	115,000	51,725
2018	120,000	48,788
2019	120,000	45,787
2020	125,000	42,725
2021-2025	680,000	161,919
2026-2029	630,000	45,812
Totals	<u>\$ 1,900,000</u>	<u>\$ 451,294</u>

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

D. Series 2014, General Obligation Bond Anticipation Note (Levee Project)

On March 19, 2014, the Union County Fiscal Court issued General Obligation Improvements Bond Anticipation Note (Levee Project), Series 2014. The bonds were dated March 19, 2014, payable semi-annually on March 1 and September 1, beginning September 1, 2014. The interest rate on the bonds is 1.10%. The note is being issued by the county for the purpose of providing interim financing for (i) the construction of renovations to the levees located within the geographical boundaries of the county so as to secure a FEMA recertification, or accreditation of the levees located in the county and continued maintenance thereof so as to maintain FEMA's accreditation; (ii) capitalized or accrued interest, if any; and (iii) paying the cost of issuance of the note. The balance of the obligation at June 30, 2015 was paid in full.

E. Energy Efficiency and Conservation Loan

On April 17, 2014, a loan agreement was made by and between the Commonwealth of Kentucky, Department for Local Government (DLG) and the Union County Fiscal Court. This loan agreement provides a loan in the amount of \$100,000 from the DLG Energy Efficiency and Conservation Revolving Loan Fund of Kentucky to the borrower. Principal outstanding as of June 30, 2015 was \$92,500. Annual debt service requirements to maturity are as follows:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$ 10,000	\$
2017	10,000	
2018	10,000	
2019	10,000	
2020	50,000	
2021-2025	2,500	
Totals	<u>\$ 92,500</u>	<u>\$</u>

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

F. USDA Loan-Levee Project

On May 20, 2015, the Union County Fiscal Court issued \$3,000,000 General Obligation Refunding Bond (Levee Project), Series 2015. The bonds were dated May 20, 2015, payable semi-annually on January 1 and July 1, beginning July 1, 2015. The interest rate on the bonds is 3.5%. The bonds are being issued by the county for the purpose of providing interim financing for (i) the construction of renovations to the levees located within the geographical boundaries of the county so as to secure a FEMA re-certification, or accreditation of the levees located in the county and continued maintenance thereof so as to maintain FEMA's accreditation; (ii) capitalized or accrued interest, if any; and (iii) paying the cost of issuance of the bonds. The balance of the obligation at June 30, 2015 was \$3,000,000. Annual debt service requirements to maturity are:

Fiscal Year Ended June 30	Principal	Scheduled Interest
2016	\$	\$ 64,750
2017	37,163	105,000
2018	38,464	103,699
2019	39,810	102,353
2020	41,204	100,960
2021-2025	228,686	482,130
2026-2030	271,608	439,209
2031-2035	322,584	388,232
2036-2040	383,128	327,688
2041-2045	455,037	255,779
2046-2050	540,441	170,375
2051-2055	641,875	68,942
Totals	<u>\$ 3,000,000</u>	<u>\$ 2,609,117</u>

G. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 5,210,000	\$ 3,000,000	\$ 3,250,000	\$ 4,960,000	\$ 170,000
Financing Obligations	880,250		47,750	832,500	50,000
Total Long-term Debt	<u>\$ 6,090,250</u>	<u>\$ 3,000,000</u>	<u>\$ 3,297,750</u>	<u>\$ 5,792,500</u>	<u>\$ 220,000</u>

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Commitments and Contingencies

A. Ambulance Service Contract

The Union County Fiscal Court is currently operating under a lease agreement with a local hospital regarding ambulance service for Union County, including garage facilities. The contract states the county is liable for monthly deficits of the ambulance service. The contract provides no maximum expense for which the county is liable. During fiscal year ended June 30, 2015, the county paid \$280,326 to the local hospital for ambulance support.

B. Solid Waste Interlocal Agreement

The Union County Fiscal Court entered into an interlocal agreement with Henderson and Webster Counties and the Cities of Henderson and Corydon establishing a Solid Waste Recycling Facility and Program for these areas. All parties have agreed to fund the operational expenses of this organization. The Union County Fiscal Court is responsible for 20% of the Solid Waste Recycling Facility and Program operating budget. The expense incurred by the Union County Fiscal Court under this agreement for fiscal year ended June 30, 2015 was \$47,449.

Note 7. Employee Retirement System

A. Plan Description

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 members employed in non-hazardous and hazardous duty positions in the county. The plan 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 17.67 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation.

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Employee Retirement System (Continued)

The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) and seven and one half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$504,310, FY 2014 was \$527,831, and FY 2015 was \$503,038.

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.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of 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.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives 10 dollars per month for insurance benefits for each year of the deceased employee's hazardous service. 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.

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Employee Retirement System (Continued)

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Union County's proportionate share of the net pension liability as of June 30, 2015 is:

	June 30, 2014	June 30, 2015
Hazardous	\$ 691,000	\$ 619,000
Non-Hazardous	3,681,000	3,254,000
Totals	<u>\$ 4,372,000</u>	<u>\$ 3,873,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publicly available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

Note 8. Deferred Compensation

On June 24, 1986, the Union 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, *et seq.*, 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.

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 9. Health Reimbursement Account/Flexible Spending Account

The Union County Fiscal Court established a flexible spending account in June 2009 to provide employees an additional health benefit. The county has contracted with a third-party administrator to administer the plan. The plan provides a debit card to each eligible employee providing \$2,400 for single plans and \$4,800 for all other plans each year to pay for qualified medical expenses.

UNION COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 10. Insurance

For the fiscal year ended June 30, 2015, Union 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 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 11. Payroll Revolving Account

The reconciled balance of the payroll revolving account as of June 30, 2015, was added to the general fund cash balance for financing reporting purposes.

Note 12. Conduit Debt

From time to time the county has issued bonds to provide financial assistance to various entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Union County Fiscal Court's name as issuer, the fiscal court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the fiscal court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement.

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UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,945,123	\$ 1,945,123	\$ 2,230,990	\$ 285,867
In Lieu Tax Payments	100,000	100,000	77,249	(22,751)
Excess Fees	234,985	234,985	305,472	70,487
Licenses and Permits	12,150	12,150	14,478	2,328
Intergovernmental	590,479	690,479	195,501	(494,978)
Miscellaneous	92,500	92,500	64,065	(28,435)
Interest	3,500	3,500	20,172	16,672
Total Receipts	<u>2,978,737</u>	<u>3,078,737</u>	<u>2,907,927</u>	<u>(170,810)</u>
DISBURSEMENTS				
General Government	2,105,694	2,297,106	2,156,879	140,227
Protection to Persons and Property	117,979	126,096	115,386	10,710
General Health and Sanitation	426,269	380,040		380,040
Social Services	6,250	6,250	1,418	4,832
Capital Projects	100,000	100,000	100,000	
Administration	518,722	465,422	520,264	(54,842)
Total Disbursements	<u>3,274,914</u>	<u>3,374,914</u>	<u>2,893,947</u>	<u>480,967</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(296,177)</u>	<u>(296,177)</u>	<u>13,980</u>	<u>310,157</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			2,134,338	2,134,338
Transfers To Other Funds	(190,680)	(190,680)	(2,296,218)	(2,105,538)
Borrowed Money	100,000	100,000	100,000	
Total Other Adjustments to Cash (Uses)	<u>(90,680)</u>	<u>(90,680)</u>	<u>(61,880)</u>	<u>28,800</u>
Net Change in Fund Balance	(386,857)	(386,857)	(47,900)	338,957
Fund Balance Beginning	<u>386,857</u>	<u>386,857</u>	<u>2,046,570</u>	<u>1,659,713</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,998,670</u>	<u>\$ 1,998,670</u>

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Licenses and Permits	\$ 500	\$ 500	\$ 48	\$ (452)
Intergovernmental	2,072,587	2,272,587	1,599,479	(673,108)
Miscellaneous	12,500	12,500	53,198	40,698
Interest	2,700	2,700	908	(1,792)
Total Receipts	<u>2,088,287</u>	<u>2,288,287</u>	<u>1,653,633</u>	<u>(634,654)</u>
DISBURSEMENTS				
Roads	3,641,644	3,687,638	2,105,772	1,581,866
Debt Service		3,055,094	3,204,940	(149,846)
Capital Projects	2,500,000	2,683,498	2,646,851	36,647
Administration	323,200	270,856	266,695	4,161
Total Disbursements	<u>6,464,844</u>	<u>9,697,086</u>	<u>8,224,258</u>	<u>1,472,828</u>
Excess (Deficiency) of Receipts Over				
Disbursements Before Other				
Adjustments to Cash (Uses)	<u>(4,376,557)</u>	<u>(7,408,799)</u>	<u>(6,570,625)</u>	<u>838,174</u>
Other Adjustments to Cash (Uses)				
Borrowed Money- Road Bonds	2,000,000	2,000,000	-	(2,000,000)
Borrowed Money- USDA Rural Development	2,250,000	2,250,000	3,000,000	750,000
Transfers From Other Funds			2,891,992	2,891,992
Transfers To Other Funds		(138,400)	(2,880,538)	(2,742,138)
Total Other Adjustments to Cash (Uses)	<u>4,250,000</u>	<u>4,111,600</u>	<u>3,011,454</u>	<u>(1,100,146)</u>
Net Change in Fund Balance	(126,557)	(3,297,199)	(3,559,171)	(261,972)
Fund Balance Beginning	<u>126,557</u>	<u>3,297,199</u>	<u>5,024,360</u>	<u>1,727,161</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,465,189</u>	<u>\$ 1,465,189</u>

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 262,250	\$ 297,450	\$ 287,525	\$ (9,925)
Charges for Services	38,000	38,000	27,647	(10,353)
Miscellaneous	27,000	32,500	21,518	(10,982)
Interest	10	10	5	(5)
Total Receipts	<u>327,260</u>	<u>367,960</u>	<u>336,695</u>	<u>(31,265)</u>
DISBURSEMENTS				
Protection to Persons and Property	886,631	1,011,955	969,810	42,145
Administration	374,650	360,026	347,594	12,432
Total Disbursements	<u>1,261,281</u>	<u>1,371,981</u>	<u>1,317,404</u>	<u>54,577</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(934,021)</u>	<u>(1,004,021)</u>	<u>(980,709)</u>	<u>23,312</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	<u>919,021</u>	<u>989,021</u>	<u>985,000</u>	<u>(4,021)</u>
Total Other Adjustments to Cash (Uses)	<u>919,021</u>	<u>989,021</u>	<u>985,000</u>	<u>(4,021)</u>
Net Change in Fund Balance	(15,000)	(15,000)	4,291	19,291
Fund Balance Beginning	<u>15,000</u>	<u>15,000</u>	<u>10,702</u>	<u>(4,298)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,993</u>	<u>\$ 14,993</u>

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 190,000	\$ 190,000	\$ 146,644	\$ (43,356)
Intergovernmental	4,630,800	5,117,356	3,195,317	(1,922,039)
Charges for Services	143,150	144,150	166,079	21,929
Miscellaneous	95,000	95,000	90,415	(4,585)
Interest	5,200	5,200	5,661	461
Total Receipts	<u>5,064,150</u>	<u>5,551,706</u>	<u>3,604,116</u>	<u>(1,947,590)</u>
DISBURSEMENTS				
General Government	384,471	450,166	380,475	69,691
Protection to Persons and Property	683,718	775,474	781,473	(5,999)
General Health and Sanitation	257,930	398,992	378,459	20,533
Social Services	739,155	731,620	621,403	110,217
Recreation and Culture	798,460	980,347	612,536	367,811
Roads	160,408	102		102
Bus Services	120,000	96,668	93,555	3,113
Capital Projects	1,210,000	1,559,444	503,671	1,055,773
Administration	212,600	196,179	177,813	18,366
Total Disbursements	<u>4,566,742</u>	<u>5,188,992</u>	<u>3,549,385</u>	<u>1,639,607</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>497,408</u>	<u>362,714</u>	<u>54,731</u>	<u>(307,983)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			800,000	800,000
Transfers To Other Funds	(919,021)	(989,021)	(1,843,800)	(854,779)
Total Other Adjustments to Cash (Uses)	<u>(919,021)</u>	<u>(989,021)</u>	<u>(1,043,800)</u>	<u>(54,779)</u>
Net Change in Fund Balance	(421,613)	(626,307)	(989,069)	(362,762)
Fund Balance Beginning	<u>421,613</u>	<u>526,307</u>	<u>2,804,491</u>	<u>2,278,184</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (100,000)</u>	<u>\$ 1,815,422</u>	<u>\$ 1,915,422</u>

UNION COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

	STATE GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 11,000	\$ 11,000	\$	\$ (11,000)
Total Receipts	<u>11,000</u>	<u>11,000</u>	<u></u>	<u>(11,000)</u>
DISBURSEMENTS				
Protection to Persons and Property	21,100	21,100	20,000	1,100
Total Disbursements	<u>21,100</u>	<u>21,100</u>	<u>20,000</u>	<u>1,100</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(10,100)</u>	<u>(10,100)</u>	<u>(20,000)</u>	<u>(9,900)</u>
Net Change in Fund Balance	(10,100)	(10,100)	(20,000)	(9,900)
Fund Balance Beginning	<u>10,100</u>	<u>10,100</u>	<u>20,498</u>	<u>10,398</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 498</u>	<u>\$ 498</u>

UNION COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Supplementary Information - Regulatory Basis
 For The Year Ended June 30, 2015
 (Continued)

	FEDERAL GRANTS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 947,100	\$ 947,100	\$ 631,720	\$ (315,380)
Total Receipts	<u>947,100</u>	<u>947,100</u>	<u>631,720</u>	<u>(315,380)</u>
DISBURSEMENTS				
General Health and Sanitation	847,100	847,100	631,720	215,380
Capital Projects	100,000			
Total Disbursements	<u>947,100</u>	<u>847,100</u>	<u>631,720</u>	<u>215,380</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		<u>100,000</u>		<u>(100,000)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			30,000	30,000
Total Other Adjustments to Cash (Uses)			<u>30,000</u>	<u>30,000</u>
Net Change in Fund Balance		100,000	30,000	(70,000)
Fund Balance Beginning			1	1
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 100,000</u>	<u>\$ 30,001</u>	<u>\$ (69,999)</u>

UNION COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Supplementary Information - Regulatory Basis
 For The Year Ended June 30, 2015
 (Continued)

	COUNTY BOND FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Interest	\$		\$	\$
Total Receipts		40	174	134
		40	174	134
DISBURSEMENTS				
Debt Service		190,680	329,080	79,761
Administration			40	38
Total Disbursements		190,680	329,120	79,799
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(190,680)	(329,080)	(79,625)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds		190,680	329,080	190,680
Transfers To Other Funds				(86,454)
Total Other Adjustments to Cash (Uses)		190,680	329,080	104,226
Net Change in Fund Balance			24,601	24,601
Fund Balance Beginning				
Fund Balance - Ending	\$	0	\$	24,601
		\$	0	\$
			24,601	24,601

UNION COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Supplementary Information - Regulatory Basis
 For The Year Ended June 30, 2015
 (Continued)

	GARDEN FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$	\$ 4,600	\$ 9,348	\$ 4,748
Miscellaneous			25,000	25,000
Total Receipts		4,600	34,348	29,748
DISBURSEMENTS				
Recreation and Culture		30,710	35,310	18,369
Total Disbursements		30,710	16,941	18,369
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(30,710)	17,407	48,117
Net Change in Fund Balance		(30,710)	17,407	48,117
Fund Balance Beginning		30,710	4,109	(26,601)
Fund Balance - Ending	\$	0	\$ 21,516	\$ 21,516

UNION COUNTY
 BUDGETARY COMPARISON SCHEDULES
 Supplementary Information - Regulatory Basis
 For The Year Ended June 30, 2015
 (Continued)

	DEBT SERVICE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 118,670	\$ 118,670	\$ 89,440	\$ (29,230)
Total Receipts	<u>118,670</u>	<u>118,670</u>	<u>89,440</u>	<u>(29,230)</u>
DISBURSEMENTS				
Debt Service	160,010	160,010	160,010	
Total Disbursements	<u>160,010</u>	<u>160,010</u>	<u>160,010</u>	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(41,340)</u>	<u>(41,340)</u>	<u>(70,570)</u>	<u>(29,230)</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds			75,000	75,000
Total Other Adjustments to Cash (Uses)			<u>75,000</u>	<u>75,000</u>
Net Change in Fund Balance	(41,340)	(41,340)	4,430	45,770
Fund Balance Beginning	<u>41,340</u>	<u>41,340</u>	<u>41,341</u>	<u>1</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45,771</u>	<u>\$ 45,771</u>

UNION COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2015

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 Union 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.

Note 2. Reconciliation of the General Fund

Other Adjustments to Cash (Uses) - Budgetary Basis	\$ (61,880)
To adjust for Payroll Revolving Account	<u>33,074</u>
Total Other Adjustments to Cash (Uses) - Regulatory Basis	<u>\$ (28,806)</u>
Fund Balance - Ending - Budgetary Basis	\$ 1,998,670
To adjust for Payroll Revolving Account	<u>33,074</u>
Total Fund Balance - Ending - Regulatory Basis	<u>\$ 2,031,744</u>

Note 3. Excess of Disbursements Over Appropriations

General fund administration disbursements exceeded budgeted appropriations by \$54,842. Road fund debt service disbursements exceeded budgeted appropriations by \$149,846. Local government economic assistance fund protection to persons and property disbursements exceeded budgeted appropriations by \$5,999.

UNION COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

UNION COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following Schedule of Capital Assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Buildings	\$ 6,783,009	\$ 205,523	\$	\$ 6,988,532
Construction In Progress	155,423		155,423	
Other Equipment	2,258,608	121,288		2,379,896
Vehicles	2,816,399	85,783		2,902,182
Infrastructure	45,845,158	1,013,009		46,858,167
 Total Capital Assets	 <u>\$ 57,858,597</u>	 <u>\$ 1,425,603</u>	 <u>\$ 155,423</u>	 <u>\$ 59,128,777</u>

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

June 30, 2015

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 and Buildings	\$ 20,000	50
Construction In Progress	\$ 20,000	50
Other Equipment	\$ 20,000	15
Vehicles	\$ 20,000	5
Infrastructure	\$ 20,000	12-50

Note 2. Capital Asset Account Combination

The following prior year accounts were combined in the current year by the fiscal court's software:

Land and Land Improvements	\$ 578,485
Buildings	6,204,524
Land and Buildings	\$ 6,783,009

UNION COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**UNION COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Fiscal Year Ended June 30, 2015

Federal Grantor CFDA #	Program Title	Pass-Through Grantor's Number	Expenditures
<u>U. S. Department of Agriculture</u>			
<i>Direct Program</i>			
10.760	Water and Waste Disposal Systems for Rural Communities (See SEFA Note 3)	**	\$ 3,000,000
Total U.S. Department of Agriculture			<u>3,000,000</u>
<u>U. S Department of Housing and Urban Development</u>			
<i>Passed-Through State Department for Local Government:</i>			
14.228	Community Development Block Grants/State's Program	12-054/11D-035	** <u>631,720</u>
Total U.S. Department of Housing and Urban Development			<u>631,720</u>
<u>U.S. Department of Energy</u>			
<i>Direct Programs</i>			
90.200	Delta Regional Development		423
90.201	Delta Area Economic Development Supplemental and Direct Grants		<u>164,001</u>
Total U.S. Department of Energy			<u>164,424</u>
<u>U.S. Department of Homeland Security</u>			
<i>Passed-Through State Department of Military Affairs:</i>			
97.042	Emergency Management Performance Grants	PO209516000021481	<u>14,956</u>
Total U.S. Department of Homeland Security			<u>14,956</u>
Total Expenditures of Federal Awards			<u>\$ 3,811,100</u>

** Tested as major program or cluster.

UNION COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Union County, Kentucky and is presented on a regulatory basis of accounting. 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 2015 or were deemed high risk. There were two Type A programs. The major programs tested were CFDA #14.228 Community Development Block Grants/State's Program and CFDA#10.760 Water and Waste Disposal Systems for Rural Communities

Note 3. Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2015.

Note 4. United States Department of Agriculture Loan Program

Union County, Kentucky promised to pay to the United States of America, acting through Rural Housing Services within the United States Department of Agriculture (USDA), the aggregate principal amount of \$3,000,000. Interest accrues on the principal amount from the date of original issue at the rate of 3.50% per annum, on the outstanding principal amount. Interest on the outstanding principal amount is payable on each January and July commencing July 2015. The balance of the obligation at June 30, 2015 was \$3,000,000.

Note 5. United States Department of Agriculture Loan Program Breakdown of Federal Expenditures

Union County Fiscal Court received a Bond Anticipation Note in fiscal year ending June 30, 2014 that was to be used for the expenses incurred for the Union County Levee Project. The fiscal court paid expenses from the road fund in fiscal years ending June 30, 2014 and 2015. The United States Department of Agriculture (USDA) Loan Program processed reimbursement requests and released the bond anticipation proceeds to the fiscal court. In May 2015, the fiscal court received the actual USDA bond proceeds. These proceeds were used to pay off the Bond Anticipation Note and reimburse the fiscal court for paid expenses up to the unreimbursed portion of the \$3,000,000 note. The Union County Fiscal Court failed to include the expenses paid in anticipation of the USDA loan during fiscal year ended June 30, 2014 as federal expenditures. The 2014 federal expenditures were audited during the performance of the fiscal year end 2015 single audit. Federal expenditures for each fiscal year are as follows:

FYE 6-30-14 Expenditures	\$ 932,946
FYE 6-30-15 Expenditures	<u>2,067,054</u>
	<u>\$ 3,000,000</u>

**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 Jody Jenkins, Union County Judge/Executive
Members of the Union 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 Union County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Union County Fiscal Court's financial statement and have issued our report thereon dated November 2, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Union 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 Union County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Union 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 2015-001, 2015-002, 2015-005, 2015-006, 2015-009, and 2015-010 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 Union 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 accompanying Schedule of Findings and Questioned Costs as items 2015-002, 2015-003, 2015-004, 2015-005, 2015-007, 2015-008, 2015-009, and 2015-010.

County Judge/Executive and Jailer's Responses to Findings

The Union County Judge/Executive and Union County Jailer's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Union County Judge/Executive and Union County Jailer'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

November 2, 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 Jody Jenkins, Union County Judge/Executive
Members of the Union 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 Union County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the Union County Fiscal Court's major federal programs for the year ended June 30, 2015. The Union 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 each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Union 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 Union 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 Union County Fiscal Court's compliance with those requirements.



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 Modified Opinion on CFDA 10.760 Water and Waste Disposal Systems for Rural Communities

As described in the accompanying Schedule of Findings and Questioned Costs, the Union County Fiscal Court did not comply with requirements regarding CFDA 10.760 Water and Waste Disposal Systems for Rural Communities as described in finding numbers 2015-011 and 2015-012 for Reporting, and 2015-013 for Procurement, Suspension, and Debarment. Compliance with such requirements is necessary, in our opinion, for the Union County Fiscal Court to comply with the requirements applicable to that program.

Basis for Modified Opinion on CFDA 14.228 Community Development Block Grant/State Program

As described in the accompanying Schedule of Findings and Questioned Costs, the Union County Fiscal Court did not comply with requirements regarding CFDA 14.228 Community Development Block Grant/State Program as described in finding numbers 2015-014 for Davis Bacon and 2015-015 for Procurement, Suspension, and Debarment. Compliance with such requirements is necessary, in our opinion, for the Union County Fiscal Court to comply with the requirements applicable to that program.

Modified Opinion on CFDA 10.760 Water and Waste Disposal Systems for Rural Communities

In our opinion, except for the non-compliances described in the Basis for Modified Opinion paragraph, the Union 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 CFDA 10.760 Water and Waste Disposal Systems for Rural Communities for the year ended June 30, 2015.

Modified Opinion on CFDA 14.228 Community Development Block Grant/State Program

In our opinion, except for the noncompliance described in the Basis for Modified Opinion paragraph, the Union 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 CFDA 14.228 Community Development Block Grant/State Program for the year ended June 30, 2015.

Other Matters

The Union 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 Union 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 them.

Report on Internal Control over Compliance

Management of the Union 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 Union 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 auditing 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 Union County Fiscal Court's internal control over compliance.

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)

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 and significant deficiencies.

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 described in the accompanying Schedule of Findings and Questioned Costs as items 2015-011, 2015-012, 2015-013, 2015-014, and 2015-015 to be material weaknesses.

The Union 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 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 them.

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,



Mike Harmon
Auditor of Public Accounts

November 2, 2016

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

For The Year Ended June 30, 2015

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2015

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: Modified opinions on both major programs

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, <i>Audits of State, Local Governments, and Non-Profit Organizations</i> , 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

10.760 Water and Waste Disposal Systems for Rural Communities 14.228 Community Development Block Grants/State's 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

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit

2015-001 The Fiscal Court Lacks Segregation Of Duties Over Cash Receipts, Disbursements, Transaction Posting, And Bank Reconciliations

There is a lack of segregation of duties over cash receipts and disbursements and financial statements. The treasurer performs all accounting functions over cash (with the exception of occupational tax) and receives, posts, and reconciles revenues as well as prepares the quarterly financial statements. The treasurer also performs the monthly bank reconciliations. The treasurer is statutorily required to perform the duties listed above, and there is no oversight of these duties. The lack of internal controls allowed errors to go undetected and uncorrected, such as:

- The fiscal court's payroll revolving account had a June 30, 2015 reconciled balance of \$33,074.
- The investment journal did not agree with the analysis of investments.
- The treasurer deposited federal loan funds into the road fund that should have been segregated into the federal grant fund.

Segregation of duties over these tasks is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. Proper segregation of duties protects employees in the normal course of performing their daily responsibilities. When proper segregation of duties cannot be achieved, compensating controls can be implemented to provide an effective alternative. Additionally, due to the nature of revolving accounts, the payroll fund should reconcile to zero.

To prevent the deficiencies noted above, we recommend the fiscal court implement stronger internal controls. Controls such as a thorough review of the receipts and disbursements ledgers and bank reconciliations by someone independent of the accounting function can help detect misstatements and errors that have occurred. This review should include tracing transactions posted to the receipts and disbursements ledgers to actual bank statement transactions. It should also include agreeing fund balances between the quarterly report and bank reconciliations, checking for mathematical accuracy, and verification of bank reconciliation amounts. Once the ledgers and reconciliations are deemed accurate, the reviewer should document their review and submit the review to the fiscal court for approval. By implementing these procedures, the fiscal court can strengthen its internal control system.

County Judge/Executive Jody Jenkins' Response: The Treasurer will prepare deposits and another employee from the Judge/Executive's office or the Treasurer's office will take the deposits to the bank, and then will initial the deposit slip once deposited. The deposit books will then be brought back to the treasurer where she will post the completed deposits in the system. A total deposit register showing the account numbers where the deposits were posted will be printed and then given to the finance officer for review and signature.

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-002 Internal Controls Over Disbursements And Credit Cards Were Weak

The fiscal court did not maintain proper supporting documentation for all disbursements. In the sample tested, the following issues were noted:

- Supporting documentation was missing for two travel vouchers; one voucher did not match the amount paid.
- Documentation for three other disbursements and one individually significant item was missing.
- One credit card disbursement was missing an itemized invoice; two others had no invoice.
- The fiscal court paid two other credit card disbursements with no invoice, but was able to obtain them later by contacting the vendor.
- The fiscal court failed to approve five disbursements prior to payment.

The lack of management oversight resulted in the Union County Fiscal Court being unable to provide the supporting documentation for these disbursements; therefore, auditors could not determine the allowability of the disbursements. By not having the appropriate documentation for disbursements, funds could be misappropriated or made for unallowable items. It may also result in payment of invoices for goods or services that were not provided to the fiscal court.

KRS 68.275(2) states “[t]he county judge/executive shall present all claims to the fiscal court for review prior to payment and the court, for good cause shown, may order that a claim not be paid.” Also, good internal controls dictate itemized invoices should be maintained for all purchases. We recommend the fiscal court require all disbursements be properly supported and invoices be maintained to validate the allowability of the disbursement prior to payment. We further recommend the fiscal court ensure all disbursements are approved and documented in the minutes before payment.

County Judge/Executive Jody Jenkins’ Response: Internal controls have already been established and implemented. All invoices are verified and signed off on by the department supervisor prior to submission for payment from fiscal court. Once all the claims are prepared, a finance committee made up of two Magistrates and the Judge that rotate quarterly. This committee reviews every claim invoice and receipt prior to court approval.

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-003 The Fiscal Court Failed To Follow Proper Purchasing Procedures For Small Contracts And Purchases

The Union County Fiscal Court failed to follow procurement procedures outlined in the county's administrative code. There was no documentation of quotes being obtained for four small purchase disbursements. There was also no documentation that the county had not exceeded the bid price for the construction contractor on the Levee Project. However, the auditor was able to recompute the construction contractor's contract amount.

No documentation of quotes was being maintained due to a lack of internal controls and monitoring by management. By not obtaining quotes, the county is in violation of their administrative code, and could overpay or obtain inferior assets for the county.

The Union County Administrative Code states, "[t]he Judge/Executive shall make a written determination identifying all purchases authorized by the County budget for which small purchase procedures may be used. The determination shall state no single item or aggregate thereof in any fiscal year shall exceed \$20,000. Small procedures where no quotes are necessary shall increase from \$50 to \$500." We recommend the fiscal court improve internal controls over procurement to ensure purchases are in accordance with the county's administrative code and maintain documentation of price quotes.

County Judge/Executive Jody Jenkins' Response: All claims over the threshold must be accompanied by three quotes for record.

2015-004 The Fiscal Court Failed To Spend Coal Severance Funds Properly

The Union County Fiscal Court failed to expend 30 percent of coal severance money on their county coal haul road system. This occurred because the county believed all coal haul roads in the county were state maintained, and were unaware that a county coal haul road existed. By not expending 30 percent of coal severance money on the county coal haul road system, state funds intended to maintain the road system were misspent.

KRS 42.455(2) requires that funds received under the Local Government Economic Assistance Program for the coal road system must expend thirty percent (30%) of all coal severance funds on the county coal haul road system. We recommend the fiscal court ensure that coal severance funds are expended appropriately.

County Judge/Executive Jody Jenkins' Response: Due to the fact, all coal haul roads in the county are state maintained the county did not believe the funds could be spent elsewhere. Now we have been informed by the auditor's office that the funds can be spent on any road operation, equipment, supply etc. The county will continue to work closely with the Department for Local Government on any new allowable expenses.

Auditor's Reply: Union County has at least one local coal haul road according to the Kentucky Transportation Cabinet's 2015 Coal Haul Highway System map for Union County. Pursuant to KRS 42.455(2), thirty percent of coal severance funds must be spent on the county coal haul road system.

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-005 The Fiscal Court Did Not Implement Internal Controls Over Payroll, Properly Compensate Employees For Overtime, And Properly Account For Hours Worked

Internal controls over payroll are insufficient. While time records are maintained by the finance office, the treasurer prepares payroll checks without anyone verifying payments against time records. The following errors and non-compliances were noted:

- FICA withholdings were not calculated properly.
- Gross wages for two employees were not calculated using the rates approved by the fiscal court.
- Timesheets for two employees were not signed by the employees or the supervisor. Timesheets are not maintained for the senior citizens coordinator.
- The manual time card for one employee was not signed by the supervisor, and it did not indicate an applicable pay period.
- Health insurance invoices did not agree with contributions stated by the fiscal court.
- Two employees were not properly compensated for hours worked in excess of 40 hours per week according to their timesheets.
- There were 20 instances where the treasurer did not clock in, but was paid the full salary without the use of leave time.

There was no review that compares time records to payments to employees independent of the treasurer. Payments to employees were not independently reviewed. Employees had too much FICA tax withheld from their paychecks each pay period, employee gross wages were calculated improperly, and health invoices did not agree with contribution noted by the fiscal court. Additionally, because the county was neither paying its employees at a rate of one and one-half times their hourly wage rate, nor allowing them to accrue compensatory time in lieu of overtime pay, the county was not in compliance with KRS 337.285.

KRS 337.285(1) states “[n]o employer shall employ any of his employees for a work week longer than forty (40) hours, unless such employee receives compensation for his employment in excess of forty (40) hours in a work week at a rate of not less than one and one-half (1- ½) times the hourly wage rate at which he is employed.” KRS 337.285(4) further states “[u]pon the written request by a county or city employee, made freely and without coercion, pressure, or suggestion by the employer, and upon a written agreement reached between the employer and the county or city employee before the performance of the work, a county or city employee who is not exempt from the provisions of the Federal Fair Labor Standards Act of 1938, as amended, 29 U.S.C secs. 201 et seq., may be granted compensatory time in lieu of overtime pay, at the rate of not less than one and one-half (1- ½) hours for each hour the county or city employee is authorized to work in excess of forty (40) hours in a work week.” Additionally, adequate internal controls over these tasks are essential for ensuring that gross wages and deductions are calculated properly, providing protection from asset misappropriation, and helping prevent inaccurate financial reporting.

**UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)**

Section II: Findings - Financial Statement Audit (Continued)

2015-005 The Fiscal Court Did Not Implement Internal Controls Over Payroll, Properly Compensate Employees For Overtime, And Properly Account For Hours Worked (Continued)

We recommend the Union County Fiscal Court:

- Strengthen internal controls over payroll, including independent review of payroll records to payroll payment.
- Comply with KRS 337.285 by paying overtime or accruing compensatory time for time worked over 40 hours per week.
- Require all employees to sign records of time worked and supervisors to review and sign employee time records.
- Ensure accurate calculations of gross wages and FICA.
- Require the treasurer to accurately record time worked and to use leave time appropriately.

County Judge/Executive Jody Jenkins' Response: Payroll records are maintained by electronic time clock and in offsite locations paper sheets as well that are signed by employee and supervisor. The finance officer reviews all time sheets prior to processing for accurate time off and comparisons to the computer. If there are any discrepancies correction are made prior to submission. The treasurer returns all timesheets to the supervisor on any sheet found with missing signatures before payroll can be processed. All changes to pay rates with in a fiscal year will be documented in court minutes and in personnel files. All pay rates have been checked and verified for accuracy in the system for overtime and holiday pay rates. Also, the finance officer and treasurer jointly are going to make sure all work days missed for holidays, trainings, medical leave etc. are documented in the system so no appearance of unworked days is made. The County Judge will sign off on his office's time sheets, and the treasurer's office time sheets.

2015-006 The Union County Jail Lacks Adequate Segregation Of Duties Over The Accounting Functions

A lack of segregation of duties exists over the accounting functions at the Union County Jail. One employee collected inmate fees, prepared deposits, made deposits, prepared monthly reports, remitted monthly reports along with inmate fees to the county treasurer, reconciled the bank account, and made payments from the bank account.

Duties were not segregated nor were there sufficient compensating controls that would offset the lack of segregation of duties. The lack of segregation of duties could result in undetected misappropriation of assets and inaccurate financial reporting to external agencies such as the Department for Local Government. In addition, too much control by one individual without oversight can lead to undetected errors and fraud.

The segregation of duties over these functions, or the implementation of compensating controls, is essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting. We recommend the jailer segregate duties or implement the following compensating controls:

- The jailer should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The jailer could document this by initialing the bank deposit, daily deposit, and receipts ledger for the day checked.

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-006 The Union County Jail Lacks Adequate Segregation Of Duties Over The Accounting Functions
 (Continued)

- The jailer should compare the monthly, quarterly, and annual financial reports to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The jailer could document this by initialing the receipts and disbursements ledgers or denoting the comparison on the financial reports.
- The jailer should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The jailer could document this by initialing the bank reconciliation and the balance in the checkbook.

Current County Jailer Shawn Elder's Response: Current Jailer has already established procedures to eliminate the problem. Current Jailer's procedures are the same as the recommendations.

2015-007 The Union County Jail Did Not Make Daily Deposits

The jail does not make daily deposits. There is no management oversight in place over commissary accounting functions to ensure receipts are deposited daily. By not making deposits on a daily basis, the opportunity for the misappropriation and theft of receipts is increased.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government *County Budget Preparation & State Local Finance Officer Policy Manual* requires daily deposits and a daily check out sheet where receipts are batched and categorized as part of the minimum accounting requirements for the jail commissary. We recommend the jailer ensure deposits be made daily in order to be in compliance with the minimum accounting standards as promulgated pursuant to KRS 68.210.

Current County Jailer Shawn Elder's Response: Jailer established procedures to ensure deposits are made when up to \$500 cash is on hand.

Auditor's Reply: We would like to reiterate that the jailer is required to make deposits daily, regardless of the amount of money collected.

2015-008 The Jailer Did Not Submit An Accurate Year-End Commissary Report To The County Treasurer

The jailer's annual commissary report was submitted to the county treasurer in enough detail to meet the requirements of a financial statement. However, the annual report does not agree to the ledgers. We noted that outstanding checks in the amount of \$1,064 were not properly accounted for on the year-end report.

The bookkeeper prepared the annual commissary report based on the amounts reported on the bank statements each month. The report does not accurately portray the activity that occurred in the jail commissary for the fiscal year. It only shows the activity that cleared the bank. Inaccurate reporting could result in undetected misappropriation of assets or inaccurate financial reporting to external agencies such as the Department for Local Government.

KRS 441.135(2) states that the jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account. We recommend that the jailer ensure the jail is in compliance with KRS 441.135(2) by ensuring all receipts and disbursement from the canteen are accounted for properly and reported on the annual report to the county treasurer.

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-008 The Jailer Did Not Submit An Accurate Year-End Commissary Report To The County Treasurer
 (Continued)

Current County Jailer Shawn Elder's Response: Jailer has instructed (Jail) finance officer to turn in report at the end of every year.

2015-009 The Fiscal Court Failed To Maintain Adequate Internal Controls Over Capital Asset Record
 Maintenance

The fiscal court's capital asset schedule was inaccurate. Construction in progress recorded on the prior year schedule was completed, but the completed building was not added to the fiscal court's asset schedule. One bridge was also left off the current year asset schedule. The total amount of unrecorded assets was \$206,627. There were also two vehicles that were disposed of in FY 2014 that were not removed from the current asset listing. Additionally, the fiscal court is insuring 13 buildings and seven vehicles that are not owned by the fiscal court. There were no contractual agreements in place for the fiscal court to maintain insurance on any building or equipment owned by other entities.

There was no management oversight to determine if capital asset records were being accurately maintained. The lack of adequate internal controls over capital assets led to improper reporting of capital assets and could lead to improper purchases of equipment and misappropriation of assets. The Department For Local Government *County Budget Preparation and State Local Finance Officer Policy Manual* states "[f]or purposes of internal control, a fixed asset inventory listing must be maintained for all asset purchases/donations above a reasonable dollar amount and have a useful life greater than one year." Additionally, good internal controls are essential for providing protection from asset misappropriation and helping prevent inaccurate financial reporting.

We recommend the fiscal court prepare and maintain adequate capital asset records in accordance with the *County Budget Preparation and State Local Finance Officer Policy Manual*. Additionally, the fiscal court should review the insurance policy to ensure the county only insures county owned buildings and equipment and vehicles that are in working condition. Furthermore, if the county chooses to insure buildings and equipment for other entities, the fiscal court should enter into written agreements with those entities.

County Judge/Executive Jody Jenkins' Response: A new capital asset records program has been implemented, and the 13 buildings and 7 vehicles have either been removed from the fiscal court's insurance policy or an agreement has been established to insure said vehicles and/or buildings.

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

2015-010 The Fiscal Court Lacks Adequate Controls Over The Off-Site Receipt Collections And Deposits

The fiscal court does not monitor off-site collections. Receipts were not issued to customers at the Senior Citizens Center; therefore, batched receipts were not attached to the checkout sheets. Detailed checkout sheets are not prepared daily. Receipts are not turned over to the treasurer on a daily basis, and deposits are not made daily. The fiscal court has not required all off-site collections to issue receipts to all customers, batch receipts and attach to a detailed daily check-out sheet, or make deposits daily. A lack of adequate internal controls over receipts at off-site locations increases the risk that cash could be misappropriated. Undeposited funds were left vulnerable to misappropriation.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the Department for Local Government's *County Budget Preparation and State Local Finance Officer Policy Manual* requires daily deposits. Additionally, strong internal controls are essential for providing protection against fraud and errors. We recommend internal controls be strengthened for decentralized receipts by monitoring receipts, daily check out sheets and requiring deposits be made daily.

County Judge/Executive Jody Jenkins' Response: All off site locations will be instructed to make sure all customers receive a receipt, and daily deposits of any amount will be submitted along with receipts regardless of how small. The senior citizens will keep their number records for their weekly reports but the money will be turned in daily with receipts. Daily deposits from all locations will be submitted to the judge's office by 4:00 pm or by 8:30 am the following morning.

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

2015-011 The Fiscal Court Failed To Implement Internal Controls That Are Adequate To Ensure The Schedule Of Expenditures Of Federal Awards Is Accurately Prepared

Federal Program: 10.760 Water & Waste Disposal System and 90.201 Delta Area Economic Development Supplemental and Direct Grants

Award Number and Year: 11215 2015 and KY12109

Name of Federal Agency: U. S. Department of Agriculture (USDA) and Delta Regional Authority (DRA)

Compliance Requirements: Reporting

Type of Finding: Material Weakness and Material Non-compliance

Amount of Questioned Costs: None

The fiscal court's internal controls are not adequate to ensure the Schedule of Expenditures of Federal Awards (SEFA) accurately reports all federal assistance received. The county treasurer has overall responsibility for final preparation of the SEFA. No one reviews her work for accuracy. The SEFA for fiscal year 2015 was materially misstated. Additionally, the federal expenditures were not properly accounted for in the supporting accounting records. This is a material weakness in internal controls over the SEFA's preparation and reporting.

The treasurer's original SEFA total was \$716,850. The USDA loan in the amount of \$3,000,000 and the DRA grant in the amount of \$164,001 were omitted from the Union County Fiscal Court's SEFA. Additionally, the CDBG amount was overstated by a payment of \$7,220 that was deposited into the fiscal court's bank account in error and the emergency management reimbursement was overstated by \$62,532.

**UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)**

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

2015-011 The Fiscal Court Failed To Implement Internal Controls That Are Adequate To Ensure The Schedule Of Expenditures Of Federal Awards Is Accurately Prepared (Continued)

The fiscal court has not put internal controls in place to ensure the SEFA is accurate and complete. It relies on the treasurer to provide accurate information, and no one reconciled that information before submitting the SEFA to the Department For Local Government. The errors identified were provided to the fiscal court for correction prior to it submitting the SEFA to the federal government. The deadline of March 30, 2016 was not met because of the errors in the SEFA noted above. Failure to meet the deadline could affect the fiscal court's ability to receive future federal assistance. Additionally, the same expenditures were submitted to multiple federal programs for reimbursement. However, there were sufficient unreimbursed expenses that could be used in place of those that had already been submitted to federal awarding agencies. The fiscal court has had to resubmit reports to DRA and USDA in order to properly substantiate grant reimbursements.

OMB Circular A-133, Section .300(b) states "[t]he auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) 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.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § __.310."

We recommend the fiscal court provide knowledgeable and independent oversight of SEFA preparation and ensure staff responsible for it do an effective job, perform a detailed reconciliation of the federal assistance reported by the treasurer, and establish reporting guidance and assistance to the treasurer to ensure timely, accurate, and consistent information, and periodically assess the effectiveness of the treasurer's records to ensure accurate reporting.

County Judge Executive Jody Jenkins' Response: The County will request proposals from outside consultants and/or certified public accountants to monitor and review any pending or future state, local or federal grants. The county finance officer will be the designated point person for all future and pending federal, state, and local grants. The Treasurer will be required to give written bi-weekly reports with explanation of any transactions involved with any federal, local or state grants.

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

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

2015-012 The Fiscal Court Failed To Implement Adequate Internal Controls Over Accounting Records Of Federal Programs

Federal Program: 10.760 Water & Waste Disposal System and 90.201 Delta Area Economic Development Supplemental and Direct Grants

Award Number and Year: 11215 2015 and KY12109

Name of Federal Agency: U. S. Department of Agriculture (USDA) and Delta Regional Authority (DRA)

Compliance Requirements: Reporting

Type of Finding: Material Weakness and Material Non-compliance

Amount of Questioned Costs: \$287,541

Opinion: Qualified

Significant issues were noted with grants management accounting records, including the following:

- Records did not support amounts remitted to the USDA for reimbursement.
- Vendor payments were submitted to the USDA and then also submitted to DRA for reimbursement.
- There was one expense paid at 100 percent from coal severance funds that was submitted to USDA for reimbursement.
- There is \$526,703 in federal funds not yet released to Union County.
- The treasurer failed to properly maintain federal funds separately from other fiscal court funds.
- There are questioned costs of \$287,541.

The questioned costs represent duplicate reimbursements received by the fiscal court because payments were incorrectly submitted to multiple funding sources. There were 67 levee project transactions totaling \$5,551,684. Of these transactions, there were five over-reimbursements totaling \$287,541. The USDA Loan was for \$3,000,000 and the DRA grant was for \$164,001.

The fiscal court has not put internal controls in place to ensure the accounting records accurately reported all program activity. There was no central compilation of grant expenses and reimbursements to prevent duplicate reimbursements and ensure all disbursements were submitted for reimbursement. Additionally, the treasurer failed to notify the fiscal court that the full balance of the loan proceeds had been received. The same expenditures were submitted to multiple federal programs for reimbursement. The fiscal court has had to resubmit reports to DRA and USDA in order to properly substantiate grant reimbursements. The fiscal court has \$526,703 of federal funds not yet released due to the breakdown in communication. Therefore, the fiscal court has been denied resources and decreased the amount of funds available for use for necessary operations.

OMB Circular A-133, Section .300(b) states “[t]he auditee shall:

- (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.
- (b) 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.
- (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.
- (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § __.310.”

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

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

2015-012 The Fiscal Court Failed To Implement Adequate Internal Controls Over Accounting Records Of Federal Programs (Continued)

We recommend the fiscal court implement internal controls over federal programs, institute a central accounting system for all federal program activity, and properly account for all grant expenditures, and resubmit all incorrect reimbursement requests. Additionally we recommend staff working on federal programs receive training in order to prevent errors such as those noted above.

County Judge Executive Jody Jenkins' Response: The County will request proposals from outside consultants and/or certified public accountants to monitor and review any pending or future state, local or federal grants. The county finance officer will be the designated point person for all future and pending federal, state, and local grants. The Treasurer will be required to give written bi-weekly reports with explanation of any transactions involved with any federal, local or state grants. When available the treasurer and/or finance officer will be required to attend trainings over grant procurement.

2015-013 The Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement, Suspension, And Debarment

Federal Program: CFDA #10.760 Water and Waste Disposal Systems for Rural Communities

Award Number and Year: 11215- 2015

Name of Federal Agency: U. S. Department of Agriculture (USDA)

Compliance Requirements: Procurement, Suspension, And Debarment

Type of Finding: Material Weakness

Amount of Questioned Costs: None

The fiscal court failed to verify that contractors or vendors that worked on federal programs were not suspended or debarred. All contractors/vendors/subcontractors should have been verified as eligible on the System For Award Management (SAM.gov). The fiscal court had no documentation that the vendors were eligible to work on the federal program. The contractor did sign a verification that he was not debarred or suspended. Auditors verified that the vendor was not debarred or suspended on SAM.gov after the contractor had been utilized and paid. Of the \$3,791,538 dollars tested, \$3,739,863 represented payments to unverified vendors.

The fiscal court thought the engineer was performing the duties of grant administrator, and internal controls over the federal program were not implemented to ensure compliance with applicable laws and regulations. Neither was able to produce documentation of verification of vendors. In turn, when grantees do not follow federal requirements for procurement, suspension, and debarment, grantors cannot ensure charges to federal grants are accurate. Since the fiscal court was not in compliance with grant requirements, the costs could be disallowed by the federal awarding agency.

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

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

2015-013 The Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement, Suspension, And Debarment (Continued)

OMB Circular A-133, Section .310(b) states “[t]he auditee shall. . .

(b) 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.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.”

The compliance supplement states “[n]on-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. ‘Covered transactions’ include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220.”

We recommend the fiscal court implement adequate internal controls over federal programs and utilize effective grant administrators in order to be in compliance with applicable federal, state, and local laws.

County Judge Executive Jody Jenkins’ Response: The County will request proposals from outside consultants and/or certified public accountants to monitor and review any pending or future state, local or federal grants. The county finance officer will be the designated point person for all future and pending federal, state, and local grants. The Treasurer will be required to give written bi-weekly reports with explanation of any transactions involved with any federal, local or state grants.

2015-014 The Fiscal Court Failed To Implement Adequate Internal Controls Over Davis Bacon Requirements And Had \$57,202 Of Questioned Labor Costs

Federal Program: 14.228 Community Development Block Grants/State's Program

Award Number and Year: 11D-035

Name of Federal Agency and Pass-Through Agency: U. S. Department of Housing and Urban Development, Passed-Through State Department for Local Government

Compliance Requirements: Davis Bacon

Type of Finding: Material Noncompliance and Material Weakness

Amount of Questioned Costs: \$57,202

Opinion: Qualified

The fiscal court’s grant administrator failed to obtain certified payrolls signed by the contractor. There was no documentation of authorization from the contractor that allowed the contractor’s office manager to sign certified payrolls. Additionally, when the grant administrator performed onsite interviews verifying job classes of contractor employees, the only documented interviews were with two electricians. The fiscal court failed to monitor the work of the grant administrator.

Questioned costs were based on the percentage of labor costs. The federal grant expenditures were \$630,000, which represents 90 percent of the total cost of the project. Total labor costs were \$63,558. Total labor costs multiplied by 90 percent equals \$57,202. The labor costs of \$57,202 represent 9 percent of the total costs.

**UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)**

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

2015-014 The Fiscal Court Failed To Implement Adequate Internal Controls Over Davis Bacon Requirements And Had \$57,202 Of Questioned Labor Costs (Continued)

The fiscal court has a lack of internal controls over federal programs. The fiscal court contracted with a third party to provide grant administration. This work was subcontracted by the third party to a former employee. The subcontracted grant administrator failed to provide a signed agreement for grant administration. The grant was monitored by the Kentucky Department For Local Government, Office of Federal Grants. The subcontracted grant administrator had 16 monitoring findings, four of which were related to Davis Bacon activities. Two of the Davis Bacon findings related to ineligible signatures on certified payrolls which had not been corrected as of the date of the audit report. The fiscal court failed to monitor the work of the grant administrator. When grantees do not follow federal requirements for documentation of salaries, grantors cannot ensure charges to federal grants are accurate. Since the fiscal court was not in compliance with grant requirements, the costs could be disallowed by the federal awarding agency.

OMB Circular A-133, Section .300(b) states “[t]he auditee shall. . .

(b) 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.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.”

Additionally, 29 CFR 5.5(a)(3)(ii)(B) states “[e]ach payroll submitted shall be accompanied by a ‘Statement of Compliance,’ signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract...” Internal controls over monitoring of Davis Bacon requirements also would dictate certified payrolls be signed by the contractor or designee and interviews should be conducted on a representative sample of contractor employees.

We recommend the fiscal court implement adequate internal controls over federal programs and utilize effective grant administrators in order to be in compliance with applicable federal, state, and local laws.

County Judge Executive Jody Jenkins’ Response: The County will request proposals from outside consultants and/or certified public accountants to monitor and review any pending or future state, local or federal grants. The county finance officer will be the designated point person for all future and pending federal, state, and local grants. The Treasurer will be required to give written bi-weekly reports with explanation of any transactions involved with any federal, local or state grants.

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

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

2015-015 The Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement, Suspension, And Debarment

Federal Program: 14.228 Community Development Block Grants/State's Program

Award Number and Year: 11D-035

Name of Federal Agency and Pass-Through Agency: U. S. Department of Housing and Urban Development, Passed-Through State Department for Local Government

Compliance Requirements: Procurement, Suspension, and Debarment

Type of Finding: Material Noncompliance and Material Weakness

Amount of Questioned Costs: None

Opinion: Qualified

The fiscal court's grant administrator failed to submit the CDBG draw request timely and the fiscal court failed to pay the contractor within 30 days. The contractor's invoice was dated November 26, 2014. The contractor was paid \$630,000 (the federal portion) on February 27, 2015, three months after date of billing. The final inspection was dated October 23, 2015. The contractor was paid the remaining \$66,420 on June 18, 2015, four months prior to inspection. Additionally, there was no documentation to determine if the vendor used was debarred or suspended. Program activity consists of two transactions. One payment was for the federal portion of the project and one was for the county portion of the federal project.

There is a lack of internal controls over federal programs. The fiscal court contracted with a third party to provide grant administration. This work was subcontracted by the third party to a former employee. The subcontracted grant administrator failed to provide a signed agreement for grant administration. The grant was monitored by the Kentucky Department For Local Government, Office of Federal Grants. The subcontracted grant administrator had 16 monitoring findings, twelve of which were related to procurement, suspension, and debarment activities. It is the fiscal court's responsibility to monitor activities of grant administrators to ensure that compliance requirements are being met. When grantees do not follow federal requirements for procurement, suspension, and debarment, grantors cannot ensure charges to federal grants are accurate. Since the fiscal court was not in compliance with grant requirements, the costs could be disallowed by the federal awarding agency. Additionally, interest may be due to the vendor for late payment.

OMB Circular A-133, Section .300(b) states "[t]he auditee shall. . .

(b) 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.

(c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs."

Additionally, KRS 65.140 states "(2) Unless the purchaser and vendor otherwise contract, all bills for goods or services shall be paid within thirty (30) working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor. (3) An interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved for each month or fraction thereof after the thirty (30) working days which followed receipt of vendor's invoice by the purchaser." Per the OMB Circular A-133 Compliance Supplement, Part 3, I "Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. 'Covered transactions' include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220."

UNION COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

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

2015-015 The Fiscal Court Failed To Implement Adequate Internal Controls Over Procurement, Suspension, And Debarment (Continued)

We recommend the fiscal court implement adequate internal controls over federal programs, and monitor the work performed by grant administrators, and receive training over compliance with federal awards in order to be in compliance with applicable federal, state, and local laws.

County Judge/Executive Jody Jenkins' Response: The County will request proposals from outside consultants and/or certified public accountants to monitor and review any pending or future state, local or federal grants. The county finance officer will be the designated point person for all future and pending federal, state, and local grants. The Treasurer will be required to give written bi-weekly reports with explanation of any transactions involved with any federal, local or state grants. When available the treasurer and/or finance officer will be required to attend trainings over grant procurement.

Section IV: Summary Schedule of Prior Audit Findings

None

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

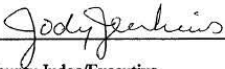
UNION COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**

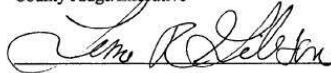
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC PROGRAM
UNION COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

The Union 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

