

**CABINET FOR HEALTH AND FAMILY SERVICES**  
**Department for Public Health**  
**Division of Administration and Financial Management**  
**(Amendment)**

**902 KAR 8:165. Local health department accounting and[/] auditing requirements.**

RELATES TO: 211.180, 212.230, 212.240, 212.245, 212.890, 2 C.F.R. Part 200

STATUTORY AUTHORITY: KRS 194A.050(1), 211.170(1), (3), (6)[, 211.180]

NECESSITY, FUNCTION, AND CONFORMITY: KRS 194A.050(1) requires the Cabinet for Health and Family Services to promulgate administrative regulations necessary to qualify for federal funds. KRS 211.170(1), ~~and~~ (3), and (6) require the ~~cabinet~~[Department for Public Health] to establish policies and standards of operation for Kentucky's local public health departments. This administrative regulation establishes minimum accounting and auditing requirements for Kentucky's local public health departments.

Section 1. Definitions. (1) "Auditee" is defined by 2 C.F.R. 200.6.

(2) "GAAP" means generally-accepted accounting principles.~~[(2) "OMB" means the U.S. Office of Management and Budget.]~~

(3) "Government auditing standards" means the standards and guidance for auditors and audit organizations who audit federal, state, and local government programs, outlining the requirements for audit reports, professional qualifications for auditors, and audit organization quality control.

Section 2. Accounting and Auditing Requirements. (1)(a) All recording by health departments in the books of account and all financial reporting shall be performed in accordance with:

1. This administrative regulation;
2. Cash or modified accrual accounting procedures as approved by the Department for Public Health;
3. 2 C.F.R. Part 200~~[OMB Circular A-87, incorporated by reference];~~ and
4. GAAP.

(b) If GAAP conflicts with policies established in this administrative regulation, the local health department shall follow policies established in this administrative regulation.

(2) Each local health department shall be audited by a certified public accountant after the close of every fiscal year~~[- The nature of audit services required is as follows:~~

~~(a) The objectives of the audit is] to assure~~[that] receipts and expenditures have been properly authorized, recorded, and reported.

~~(a)~~~~(b)~~ The following items shall be audited:

1. Federal, state, and local funds and fees received and expended; and
2. Books, accounts, and other financial documentation, by cost center.

~~(b)~~~~(c) An OMB Circular A-133, incorporated by reference, audit shall be performed to determine whether the financial statements present fairly the financial position and results of operations in accordance with the appropriate basis of accounting and in compliance with federal and state laws and administrative regulations.~~

~~(d)~~ An audit shall be conducted in accordance with:

1. GAAP; and
2. ~~["]~~ Government auditing standards~~[" and the provisions of OMB Circular A-133; and~~
3. ~~A-133 Compliance Supplement].~~

(c) The audit of a local health department expending \$750,000 or more in federal funds shall be conducted in accordance with:

1. Paragraph (b) of this subsection; and
2. The provisions of 2 C.F.R. 200.500-200.520.

(d)[(e)] The following reports[, if applicable,] shall be provided to the local health department and the Department for Public Health:

1. Auditor's opinion on the financial statements and on the schedule of expenditures of federal awards, as required by 2 C.F.R. 200.515(a);
2. Statement of assets, liabilities, and fund balance;
3. Statement of revenues and expenditures by cost center;
4. Statement of changes in fund balance;
5. Comparative schedule of budgeted to actual operating revenues and expenditures by cost center;
6. Audit adjustments, or a statement that an adjustment is not required;
7. Schedule of expenditures of federal awards, as required by 2 C.F.R. 200.510(b)[OMB Circular A-133];
8. Report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with ["]government auditing standards["];
9. Single audit report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with 2 C.F.R. 200.515(b)[OMB Circular A-133];
10. Schedule of findings and questioned costs, in accordance with 2 C.F.R. 200.515(d)[OMB Circular A-133], including the status of an uncorrected finding from a prior audit;
11. A summary of the auditor's results, in accordance with 2 C.F.R. 200.516[OMB Circular A-133];
12. Auditee's[Management's] corrective action plan; and
13. Auditee[Management] letter:
  - a. Describing an internal control or compliance deficiency not a reportable condition; and
  - b. Referenced in the auditor's report on internal control and compliance.

(3) The reports described in subsection (2)(d)[(e)] of this section shall be presented as prescribed by the American Institute of Certified Public Accountants Statement of Position 98-3, Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards, and subsequent amendments, except that a written auditee[management] letter is required when internal control and compliance deficiencies are determined not to be reportable conditions.

(4) A report shall contain all reportable conditions, with those reportable conditions that[which] are considered material weaknesses being appropriately segregated and identified. Any other matters conveyed to the auditee[management] shall be in writing in the auditee[management] letter, and shall be discussed during the exit conference. Reportable conditions presented as part of the reports shall be well developed and shall consist of the following components, to the extent practicable:

- (a) A statement of condition;
  - (b) The criteria for the reportable condition;
  - (c) The cause of the condition;
  - (d) The effect of the condition;
  - (e) A recommendation for correction; and
  - (f) Auditee's[Management's] response and corrective action plan.
- (5) If applicable, the audit firm shall report on:

- (a) Uncorrected comments reported in the preceding audit;
  - (b) The status of prior-year questioned costs, whether resolved with the federal grantor or unresolved; and
  - (c) Questioned costs from the preceding audit and any unresolved questioned costs from prior years.
- (6) The audit firm shall report immediately, in writing, to the Commissioner of the Department for Public Health, any fraud, irregularity, illegal act, or indication of an illegal act of the auditee, that comes to its attention during the audit proceedings~~[term of the contract]~~.
- (7) A vendor selected to conduct a local health department audit shall meet criteria provided in the request for proposal instructions provided by~~[of]~~ the Department for Public Health.

Section 3. Internal Control Procedures. (1) A local health department shall have written internal control procedures that shall be followed by the local health department. The chief executive officer, senior local health department management official, or other staff shall notify the Department for Public Health immediately~~[,]~~ if evidence of possible fraud or mismanagement is discovered.

(2) A local health department shall use an automated financial accounting system approved by the Department for Public Health.

(3) Local health departments shall submit all financial reports to the Department for Public Health in accordance with the ~~[accounting]~~ instructions provided by the department~~[and time frames distributed to all local health departments]~~.

~~Section 4. Incorporation by Reference. (1) The following material is incorporated by reference:~~

- ~~(a) "OMB Circular A-87 - Cost Principles for State, Local and Indian Tribes Government"; and~~
- ~~(b) "OMB Circular A-133 - Audits of States, Local Governments and Nonprofit Organizations".~~

~~(2) This material may be inspected, copied, or obtained, subject to applicable copyright law, at the Kentucky Department for Public Health, Division of Resource Management, Financial Management Branch, 275 East Main Street, Frankfort, Kentucky, Monday through Friday, 8 a.m. to 4:30 p.m.]~~

JEFFREY D. HOWARD, JR. M.D., Commissioner  
ADAM M. MEIER, Secretary

APPROVED BY AGENCY: October 4, 2018

FILED WITH LRC: October 8, 2018 at 3 p.m.

PUBLIC HEARING AND PUBLIC COMMENT PERIOD: A public hearing on this administrative regulation shall, if requested, be held on November 26, 2018, at 9:00 a.m. in Suites A & B, Health Services Building, First Floor, 275 East Main Street, Frankfort, Kentucky 40621. Individuals interested in attending this hearing shall notify this agency in writing by November 19, 2018, five (5) workdays prior to the hearing, of their intent to attend. If no notification of intent to attend the hearing is received by that date, the hearing may be canceled. This hearing is open to the public. Any person who attends will be given an opportunity to comment on the proposed administrative regulation. A transcript of the public hearing will not be made unless a written request for a transcript is made. If you do not wish to be heard at the public hearing, you may submit written comments on this proposed administrative regulation until November 30, 2018. Send written notification of intent to attend the public hearing or written comments on the proposed administrative regulation to the contact person. Pursuant to KRS 13A.280(8),

copies of the statement of consideration and, if applicable, the amended after comments version of the administrative regulation shall be made available upon request.

CONTACT PERSON: Laura Begin, Legislative and Regulatory Analyst, Office of Legislative and Regulatory Affairs, 275 East Main Street 5 W-A, Frankfort, Kentucky 40621, phone: 502-564-6746, fax: 502-564-7091, email CHFSregs@ky.gov.

## REGULATORY IMPACT ANALYSIS AND TIERING STATEMENT

Contact Persons: Julie Brooks, phone: (502) 564-3970, email: julied.brooks@ky.gov; and Laura Begin

(1) Provide a brief summary of:

(a) What this administrative regulation does: This administrative regulation establishes the minimum accounting and auditing procedures for the local health departments.

(b) The necessity of this administrative regulation: This administrative regulation ensures proper accounting and auditing procedures for the local health departments.

(c) How this administrative regulation conforms to the content of the authorizing statutes: KRS 194A.050(1) authorizes the cabinet to promulgate administrative regulations to qualify for the receipt of federal funds. KRS 211.170(1), (3), and (6) authorize the cabinet to establish policies governing the activities and practices of local health departments, establish standards of operation, and allocate, modify or cancel allotments of state funds to local health departments pursuant to KRS 212.120.

(d) How this administrative regulation currently assists or will assist in the effective administration of the statutes: This administrative regulation establishes uniform accounting and auditing procedures for local health departments, and ensures those procedures are in compliance with the federal Office of Management and Budget (OMB), as required for the receipt of federal funds.

(2) If this is an amendment to an existing administrative regulation, provide a brief summary of:

(a) How the amendment will change this existing administrative regulation: This amendment updates the accounting and auditing procedures to the most current OMB uniform guidance by referencing the applicable code of federal regulation.

(b) The necessity of the amendment to this administrative regulation: As a recipient of federal funding, the Department for Public Health is required to implement accounting and auditing procedures that are in compliance with OMB processes. This amendment is necessary to update the references to the applicable code of federal regulation.

(c) How the amendment conforms to the content of the authorizing statutes: This amendment conforms to the authorizing statutes by establishing consistent and proper accounting and auditing requirements for local health departments.

(d) How the amendment will assist in the effective administration of the statutes: This amendment provides for consistent accounting and auditing report terminology and guidance for local health department personnel.

(3) List the type and number of individuals, businesses, organizations, or state and local governments affected by this administrative regulation: This administrative regulation will affect all local health departments with the exception of Lexington-Fayette County Health Department, Louisville-Jefferson County Health Department, and the Northern Kentucky District Health Department including the counties of Boone, Campbell, Grant, and Kenton.

(4) Provide an analysis of how the entities identified in question (3) will be impacted by either the implementation of this administrative regulation, if new, or by the change, if it is an amendment, including:

(a) List the actions that each of the regulated entities identified in questions (3) will have to take to comply with this administrative regulation or amendment: Local health department personnel will need to review this administrative regulation and become familiar with the new accounting and auditing procedures, and reporting requirements.

(b) In complying with this administrative regulation or amendment, how much will it cost each of the identities identified in question (3): There will be no cost associated with this amendment.

(c) As a result of compliance, what benefits will accrue to the entities identified in question (3): Local health departments throughout the state will have uniform accounting and auditing report requirements.

(5) Provide an estimate of how much it will cost the administrative body to implement this administrative regulation:

(a) Initially: This is an ongoing program and there will be no initial costs to the administrative body.

(b) On a continuing basis: This is an ongoing program and there will be no increased costs to the administrative body.

(6) What is the source of the funding to be used for the implementation and enforcement of this administrative regulation: Current agency funds will be used to implement and enforce this regulation.

(7) Provide an assessment of whether an increase in fees or funding will be necessary to implement this administrative regulation, if new or by the change, if it is an amendment: There are no fees associated with this administrative regulation. An increase in funding is not needed to implement this administrative regulation.

(8) State whether or not this administrative regulation established any fees or directly or indirectly increased any fees. There are no fees established in this regulation.

(9) TIERING: Is tiering applied? Tiering is applied in this administrative regulation. Local health departments receiving less than \$750,000 in federal funding are not subject to the OMB accounting procedures and audit report requirements. Those local health departments that receive \$750,000 or more in federal funds must comply with OMB accounting procedures and audit report requirements.

## FISCAL NOTE ON STATE OR LOCAL GOVERNMENT

1. What units, parts or divisions of state or local government (including cities, counties, fire departments, or school districts) will be impacted by this administrative regulation? Local health departments, district health departments, Local Health Budget Branch within the Division of Administration and Financial Management.

2. Identify each state or federal statute or federal regulation that requires or authorizes the action taken by the administrative regulation. KRS 194.050(1), 211.170(1), (3), (6), and 2 C.F.R. Part 200.

3. Estimate the effect of this administrative regulation on the expenditures and revenues of a state or local government agency (including cities, counties, fire departments, or school districts) for the first full year the administrative regulation is to be in effect.

(a) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for the first year? This administrative regulation does not generate revenue.

(b) How much revenue will this administrative regulation generate for the state or local government (including cities, counties, fire departments, or school districts) for subsequent years? This administrative regulation does not generate revenue.

(c) How much will it cost to administer this program for the first year? This is an ongoing program, there will be no initial costs.

(d) How much will it cost to administer this program for subsequent years? This is an ongoing program, there will be additional costs.

Note: If specific dollar estimates cannot be determined, provide a brief narrative to explain the fiscal impact of the administrative regulation.

Revenues (+/-):

Expenditures (+/-):

Other Explanation:

## FEDERAL MANDATE ANALYSIS COMPARISON

(1) Federal statute or regulation constituting the federal mandate. Office of Management and Budget Super Circular, 2 C.F.R. 200 Subparts E and F.

(2) State compliance standards. This administrative regulation adopts the accounting and auditing provisions for the receipt of federal funds.

(3) Minimum or uniform standards contained in the federal mandate. Under uniform guidance provisions, the federal mandate requires states to adopt the OMB accounting and auditing requirements contained in the Super Circular.

(4) Will this administrative regulation impose stricter requirements, or additional or different responsibilities or requirements, than those required by the federal mandate? No.

(5) Justification for the imposition of the stricter standard, or additional or different responsibilities or requirements. There are no different, stricter, or additional responsibilities or requirements.