



## **INTERNAL AUDIT REPORT**

DATE: January 11, 2019

TO: Linda Gorton, Mayor

CC: Sally Hamilton, Chief Administrative Officer  
Glenn Brown, Deputy Chief Administrative Officer  
Aldona Valicenti, Chief Information Officer  
William O'Mara, Commissioner of Finance & Administration  
Charlie Martin, Acting Commissioner of Environmental Quality &  
Public Works  
Rusty Cook, Director of Revenue  
Phyllis Cooper, Director of Accounting  
Susan Straub, Communications Director  
Urban County Council  
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit  
Teresa Gipson, CFE, Internal Auditor

RE: Municipal & County Aid Fund Audit

### **Background**

The Office of Rural Secondary Roads (ORSR) under the Kentucky Transportation Cabinet administers the Municipal Aid Fund (MAP) and County Aid Fund (CAP) revenue sharing programs funded by motor fuel taxes as mandated by Kentucky Revised Statutes (KRS) 177.320 through 177.366. The MAP & CAP Funds also receive additional revenues as provided by KRS 47.020 and 186.535 for original or renewal



operator's license and motor truck registration fees. Each fiscal year all counties, incorporated cities, and unincorporated urban places are allocated county and municipal road aid. County Road Aid funding is based on the Formula of Fifths. This calculation divides one-fifth of the funds each for (1) equal shares to counties, (2) percent of the state's rural road mileage and (3) percent of the state's rural population. The remaining two-fifths are distributed for the county's percent of the state's rural land area. Municipal Road Aid funding is based on population as determined by the most recent Census. These funds are to be used for the construction, reconstruction, and maintenance of county roads and city streets.

According to KRS 177.365, construction, reconstruction, and maintenance means the supervising, inspecting, actual building, and all expenses incidental to the construction, reconstruction, or maintenance of a road or street, including planning, locating, surveying, and mapping or preparing roadway plans, acquisition of rights-of-way, relocation of utilities, lighting, and the elimination of other hazards such as roadway grade crossing, and all other items defined in the Department of Highways design, operations, and construction manuals.

As reported in the FY 2017 Comprehensive Annual Financial Report (CAFR), MAP and CAP expenditures for FY 2017 were \$3,885,994 and \$8,199 respectively. The expenditures were distributed among three LFUCG Divisions, as noted below:

Division of Engineering	\$261,420
Division of Streets & Roads	\$2,577,833
Division of Traffic Engineering	\$1,054,940

As reported in the FY 2018 CAFR, MAP and CAP expenditures for FY 2018 were \$547,983 and \$811,300 respectively. The expenditures were distributed among three LFUCG Divisions, as noted below:

Division of Engineering	\$52,493
Division of Streets & Roads	\$1,200,943
Division of Traffic Engineering	\$105,847



## **Scope and Objectives**

The general control objectives for the audit were to provide reasonable assurance that:

- State and county funds are accurately recorded
- Expenditures meet the requirements outlined in KRS statutes
- Reports are properly submitted to the Kentucky Department for Local Government
- Reimbursement for flex funds, if applicable, were submitted, received, and accurately posted

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The period of review for our audit included transactions from June 1, 2016 through June 30, 2018.

## **Statement of Auditing Standards**

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## **Audit Opinion**

The audit did not identify any reportable findings. In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met.

