



# Internal Audit

**Comprehensive Review  
Cooperative Extension Services**

**Report No. 2017 CC02**

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## TABLE OF CONTENTS

<b>Abbreviations</b>	1
<b>Executive Summary</b>	2
<b>Background</b>	3
<b>Purpose and Scope</b>	4
<b>Observations</b>	5
• Observation 1: Governance	5
○ Finding 1.1: Organization Structure and Communication	5
○ Finding 1.2: Operational Management	5
• Observation 2: Reporting	11
○ Finding 2.1 Reporting Tools	11
○ Finding 2.2 Conflicts of Interest	14
• Observation 3: Unit Operations	15
○ Finding 3.1 Segregation of Duties	16
○ Finding 3.2: External Audits	17
○ Finding 3.3: Travel	19
○ Finding 3.4: Disbursements	20
○ Finding 3.5: Cash Handling	21
○ Finding 3.6: Asset Management	23
○ Finding 3.7: Volunteers	24
○ Finding 3.8: Time Reporting	25
○ Finding 3.9: Personally Identifiable Information (PII) Security	25
<b>Appendices</b>	<b>27</b>
<b>Audit Team</b>	<b>32</b>

## **ABBREVIATIONS**

BPM - Business Procedures Manual  
CAFE – College of Agriculture, Food and Environment  
CES - Cooperative Extension Services  
CPA – Certified Public Accountant  
USDA - US Department of Agriculture  
EDB - Extension District Board  
FCS- Family & Consumer Sciences  
FLSA - Fair Labor Standards Act  
GAAP - Generally Accepted Accounting Principles  
IT - Information Technology  
KERS - Kentucky Extension Reporting System  
KRS - Kentucky Revised Statutes  
MYUK - Individual Time Reporting System  
PII - Personally Identifiable Information  
UK - University of Kentucky  
UKIA - University of Kentucky Internal Audit

## EXECUTIVE SUMMARY

The University of Kentucky Internal Audit (UKIA) has conducted a comprehensive review of the Cooperative Extension Services (CES). This review was scheduled as a part of the UKIA FY 2017 Work Plan which was approved by the Audit and Compliance Committee of the Board of Trustees and includes an examination of business processes, reporting structure, data integrity and monitoring activities of the CES offices. The audit focus as directed through the UKIA risk assessment process resulted in five units being selected for comprehensive review. The overall objectives were to focus on the following:

- Governance structure, oversight and monitoring
- Operational efficiency and effectiveness
- Financial reporting

This includes reviewing existing practices for alignment with CES Administration objectives. Audit results showed inconsistencies regarding regulatory adherence, financial reporting and strategic alliance. Specifically, the application of KRS regulations, the reporting of issues and/or concerns to CES Administration, the monitoring and accuracy of financial records as well as internal controls all have material weaknesses. Additionally, training and information flow are both inadequate for financial operations. These deficits were observed at these levels of governance:

- CES Administration
- CES Administration Oversight
- Certain Individual County Extension Offices

In response to these findings and corresponding recommendations, management has initiated extensive steps to improve governance, operations and communications. Management has created the position of Extension Director of Financial Operations (EDFO) and is establishing a financial oversight team, which will work together to develop and implement effective policies and procedures, improve data integrity in its reporting systems, provide relevant training to CES staff, and ensure compliance through better monitoring.

*UKIA has conducted this review in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.*

## **BACKGROUND**

CES is housed within the College of Agriculture, Food and Environment (CAFE) and has an office in each of the 120 counties in Kentucky (see Appendix A for district map). The state is organized into seven districts with a director heading each district. Each district encompasses fifteen to twenty counties, and each county has five to twenty-two county agents and support staff. Current leadership is held by the Associate Dean for Extension, the Director of County Operations and the seven district directors, each of whom oversees one of the seven districts. CES offices operate in conjunction with individual county Extension District Boards (EDB) and county-based program councils and clubs. Their activities are supported by the Director of County Operations, who oversees administrative matters, and program directors with subject matter responsibility over 4-H Youth Development programs, Agriculture and Natural Resource programs and Family and Consumer Science programs (see Appendix B for organizational structure).

The State of Kentucky established KRS to address the federal regulations related to extension services. These statutes govern the proper administration of district boards and address additional administrative requirements such as term limits of board members and surety bonds for key board members. The reporting requirements for each individual office are also addressed in the KRS, such as requirements for financial audits, publications, registrations, budgets, budget amendments, audit reports/reviews and Uniform Financial Information Reports.

CES has policies that include business operations, recordkeeping requirements and other financial regulations. These policies are found in the County Extension Office Procedures Manual, the District Board Guidelines and the Extension Manual. The District Board Guidelines focuses on KRS statutory requirements, whereas the other manuals emphasize office operations. These manuals, in conjunction with UK policies, provide guidelines and instructions that support compliance with federal, state and local regulations.

## **PURPOSE AND SCOPE**

The purpose of the CES review was to provide reasonable assurance of KRS compliance and financial reporting accuracy. This included an examination of business processes, reporting structures, monitoring activities and data integrity of the CES offices. As it was not feasible to visit and examine all 120 CES offices, UKIA selected the offices based on population, tax revenues, distance from the CES Administration offices and last audit activity. UKIA required each district to have at least one office evaluated during the planning phase.

In total, UKIA studied 17 CES offices, twelve of which were reviewed during the planning phase to gain a better understanding of practices and procedures. Extensive testing was then conducted within five additional offices to examine process vulnerabilities identified during the planning phase. The review period was fiscal years 2015-2016. However, in some CES offices, documentation was reviewed for fiscal year 2017 as well.

## OBSERVATIONS

### Observation 1: Governance

The CES Administration is the governing authority responsible for directing the 120 CES offices, which includes prudent governance of the array of funds, regardless of the source (see Appendix C for funding sources). The Extension Manual mandates that all CES employees, regardless of source of funds, must comply with UK employment policies and procedures. UKIA examined and evaluated the CES organizational structure and protocol for managing individual offices. The review revealed several opportunities to improve governance through more frequent and effective communication, clearly defined roles and responsibilities and improved monitoring of fiscal affairs.

#### Finding 1.1: Organization Structure and Communications

The CES management structure includes the Director of County Operations, district directors, program directors and a human resource liaison focusing on operations and regulatory compliance. This organizational structure (Appendix B) has been in place many years providing limited managerial support and operational effectiveness for CES offices. In 2003, CES reduced the number of district directors from 14 to seven and added a human resource liaison. UKIA noted that these decisions were not implemented as a result of a strategic plan or continuous improvement activity, but rather were based on resource constraints. Delineation of activities for program and district directors are clear, but a cohesive plan to assist with the effective management of CES operations is not in place. UKIA noted that the CES Administration's focus is intended to communicate regulatory amendments and stress adherence.

#### Finding 1.2: Operational Management

UKIA's review found CES operations to be disjointed and cursory, with minimal financial oversight and accountability, as levied in the following findings:

##### Finding 1.2a: Program Directors

Program director functions are ambiguous and the scope of authority uncertain. This includes insufficient monitoring of activities and program reporting to CES leadership. UKIA noted limited activity coordination with district directors and no interaction with the Extension District Boards (EDB). As currently constructed, program directors have limited authority and accountability.

##### Finding 1.2b: District Directors

Although district directors are knowledgeable with KRS and CES policies, operational management is absent. Operational management requires adequate monitoring and appropriate interactions with CES county offices, program directors and the EDBs. While this may be due, in large part, to the logistical challenges of managing large geographical areas, UKIA observed during field visits that monitoring is deficient. Consequently, CES field agents are essentially managing the CES county offices.

### **Finding 1.2c: County Review Teams**

County review teams were established to physically visit each office within a defined period to verify adherence with USDA Civil Rights regulations and to review some operational performance. Any observed deficiencies documented from a prepared check-list were recorded with associated recommendations. UKIA review of a completed check-list revealed no root-cause analysis or evaluation of the inadequate conditions. Additionally, UKIA found that:

- County review team members do not have the financial knowledge necessary to effectively review financial records.
- County review teams are not adequately addressing financial issues.

### **Recommendation 1: Governance**

UKIA recommends the following:

1. Plan: the creation and implementation of a cohesive plan to consolidate CES short-term and long-term objectives.
2. Organizational Structure: the current organizational structure should be evaluated for effectiveness, as the design should meet the CES program needs and goals. Currently, the converse exists where the organizational structure does not meet CES needs.
3. Positions: function and authority for each position type should be reevaluated to include a fiscal affairs coordinator within CES Administration.
4. Metrics: measurements should be put in place to assess progress in the achievement of CES goals.
5. County review teams should be reconstituted to achieve objectives and roles created thereafter to include:
  - a. Reporting structure should allow for the achievement of objectives at the CES offices in coordination with the CES Administration.
  - b. County review teams should have metrics to measure both CES offices and team effectiveness
  - c. County review teams should have suitable knowledge and be given proper training to adequately perform their function
6. CES offices should require personnel signatures acknowledging review of CES Manuals, which should be kept on file.

### **Management Response 1: Governance**

As a preface to the College of Agriculture, Food and Environment (CAFE) response to the UKIA Report, we note ongoing actions that commenced before the final UKIA audit report was complete but are consistent with its findings. Concomitant with the UKIA audit, the Dean of the CAFE (“Dean”) made it a priority to review financial oversight and compliance efforts within CES county operations. Given the breadth of those operations and the scope of the budget, it was clear that CES needed a greater level of financial support. The Dean transferred financial oversight functions away from the Director of CES and put them under the CAFE Business Center, which reports directly to the Dean. The Dean asked the CAFE Chief Financial Officer (“CFO”) and administrative team to review the current structure

and recommend a plan for improvement. As is described more thoroughly below, the Dean created the position of Extension Director of Financial Operations (“EDFO”), which reports to both the Dean and the Director of Extension. At the same time, with the support of the Provost, the CAFE undertook a comprehensive review of CES with the goal of addressing many of the issues identified in this report.

1. At the request of the Provost, and with the full support of CAFE and CES Administration, the CAFE has undertaken a comprehensive review of CES with the purpose of identifying organization priorities and opportunities to improve operations, and ensuring that CES is compliant with all applicable federal and state laws, University regulations, policies and procedures (“Extension Review”). The review addresses the entirety of CES, including its administration, county operations, and campus specialists and programs.

The Extension Review is being performed by a 35-person committee comprised of CES specialists and county agents, members of CAFE administration, representatives from other state extension systems and various external stakeholders (e.g., legislators, commodity groups, community leaders). The committee is broken down into five subcommittees addressing:

- organizational structure,
- programming,
- marketing/external relations,
- communication, and
- financial oversight.

Each subcommittee has interviewed numerous internal and external stakeholders to identify organizational objectives and priorities within its designated area. County agents and support staff are being surveyed for input on organizational priorities and the degree to which CES has been successful in pursuing them. Using the information gathered through the survey and through the interviews, the subcommittees will each draft a set of recommendations, which will then be synthesized into one final report. The final report will be presented to the Dean and the University Provost for review and discussion.

To the extent that the CES’s short-term and long-term objectives are not coordinated, that will be identified in the review and addressed in the recommendations to the Dean. The Dean will then work with CES Administration to implement all appropriate recommendations, with attention given to those that clarify and consolidate short-term and long-term objectives.

2. The organizational committee of the Extension Review has been specifically tasked with examining CES’s organizational structure and evaluating whether it is meeting the various needs of the organization. The programming subcommittee has been specifically tasked

with examining how programmatic priorities are established and examining whether they meet the needs of the communities served by the county offices, and how to effectively deliver programs that reflect those priorities.

Working in collaboration, these subcommittees will evaluate CES administration to address whether the Director of County Operations, the seven District Directors and the Assistant Directors/Program Leaders are providing adequate administrative oversight and programmatic support, and whether their roles have been defined appropriately. Specifically, the subcommittees will pay special attention to the District Director position to determine whether seven individuals are capable of providing administrative support, programmatic support and financial oversight across the 120 counties.

The financial oversight subcommittee will also be looking at the organizational structure to determine how to provide more effective oversight to CES financial operations so that regulatory compliance underpins the pursuit of organizational objectives.

3. Historically, CES has not had an employee exclusively dedicated to oversight and management of the organization's financial affairs. The responsibility for fiscal oversight was shared by numerous individuals and, as such, was lacking in consistency and strategic leadership. Fiscal problems were addressed in a reactive manner and rarely resulted in necessary organizational changes.

In early 2016, the Dean realized that fiscal oversight was lacking and tasked the CFO with recommending changes. On January 1, 2017, the Dean created a new position called Extension Director of Financial Operations ("EDFO"). This position has assumed leadership of all aspects of CES financial operations and has been charged with improving business processes and establishing more robust and effective fiscal oversight. The EDFO will report directly to the Dean, codifying direct financial oversight of CES by CAFE Administration.

Specifically, the EDFO is responsible for ensuring that the organization's financial operations are compliant with federal and state law, and with all applicable University policies and procedures. Based on recommendations from the financial oversight subcommittee of the Extension Review and CAFE leadership, the EDFO will build a financial oversight team to support those efforts. This team will be comprised of between three and seven district financial officers who assume the day-to-day responsibilities of managing the fiscal affairs in their districts. Working in conjunction with the CES Director of County Operations, the EDFO will appoint an existing county support staff employee to assume the role of county fiscal coordinator, while also retaining some of their existing program support responsibilities. Collectively, these positions make up the "EDFO Team."

At present time, a county agent is asked to serve as the fiscal coordinator in his/her county, but that role is loosely defined and fiscal coordinators are not evaluated on the performance of their fiscal duties. As members of the EDFO Team, the support staff serving as county fiscal coordinators will have MJRs that include well-defined duties assigning them responsibility for the business transactional work in their counties. They will receive business procedure training to ensure that they possess the skills and knowledge to perform those

tasks and will be evaluated annually based on their performance of same. The county fiscal coordinators will report to the district financial officers with respect to their fiscal duties, and the district financial officers will, in turn, report directly to the EDFO.

Collectively, the EDFO Team will be responsible for:

- Conducting scheduled financial reviews in all 120 CES county offices on a schedule to be determined;
- Conducting spot compliance audits in the CES county offices as necessary;
- Reviewing travel vouchers and providing other transactional support to all 120 CES county offices;
- Providing financial and business management training reflecting UK business procedures and GAAP to CES employees in all 120 CES county offices;
- Along with the District Directors, coordinating fiscal oversight with the EDBs and other county-based leadership to ensure that they are partners in fiscal compliance, including, but not limited to:
  - providing periodic financial reports to the EDBs on at least a quarterly basis;
  - providing relevant training to EDB treasurers; and
  - monitoring the audit process required by KRS 65A.030(2)(b) and ensuring that there is appropriate follow-up with respect to any identified deficiencies; and
- Providing guidance to the Dean, Director of Extension and CFO regarding fiscal policies to ensure maximum efficiency, effectiveness and proper allocation of all CES fiscal, human, and physical resources.

This EDFO will bring a new level of analytic expertise with respect to financial management and will collaborate with the CES Director of County Operations with respect to the implementation of control mechanisms. The EDFO Team will provide a greater level of financial oversight to inform policy decisions and operational effectiveness.

4. The CES four-year Plan of Work, which was completed in July 2016, utilizes a “logic model” feedback template. This template encourages the development of short-term, intermediate-term and long-term goals which are evaluated for changes in knowledge, skills and aspirations in addition to changes in behaviors and economic impacts. Those metrics will be reviewed by CES and CAFE leadership and will be modified as necessary to make certain they align with the stated goals and provide evidence of success, or a lack thereof.
5. County program reviews were initially implemented to ensure that CES county offices were in compliance with USDA Civil Rights regulations, and to address limited aspects of office operations. The teams were composed of county extension agents, specialists and administrators with knowledge of CES programming and USDA reporting requirements. In response to a series of problems in the

counties related to financial impropriety, a layer of financial review was added to the county program reviews in an attempt to provide greater oversight to county financial operations.

While well intentioned, the addition of this financial review has proven ineffective. The county agents, specialists and administrators lack the necessary training to provide a meaningful review to the county fiscal operations and their attempts to do so took time away from the primary purpose of the county program reviews – that being to address USDA requirements with respect to programming and record keeping. Rather than re-appropriating the county review process to make it a means of addressing fiscal oversight, the CAFE – under the leadership of the EDFO – will create a parallel process for reviewing county financial operations. This separate financial operations review process will include areas such as financial oversight, internal controls, payroll procedures, cash handling, purchasing procedures, reconciliations, inventory management, safeguarding of assets, etc. The development of this review process will be done with the assistance of UKIA to ensure all requirements are met and will result in a new financial operations review checklist which will guide the review process. Recommendations from the Extension Review will be implemented as appropriate.

- a. Issues identified through the county program and financial reviews will be reported to the CAFE Director of Operations and the EDFO for appropriate resolution. Both parties are responsible to the Dean.
  - b. County program reviews will continue to operate based on the metrics and guidance provided by the USDA. County financial operations reviews will develop metrics through which CAFE Administration can measure the degree to which the county offices are compliant with federal law, state law and University policies and procedures.
  - c. County program review teams will continue to be staffed by county agents with programmatic expertise and trained based on the guidance provided by the USDA. County financial operation review teams will be comprised of individuals with specific financial expertise and will be trained by the EDFO based on GAAP and the guidance provided by UKIA and the University's policies and procedures.
6. As part of the onboarding process, and then again as part of each annual performance review, all CES employees will be required to acknowledge in writing that he or she has reviewed the Extension Manual and the County Office Procedures. Those acknowledgements will be kept on file in the county offices. Compliance with these policies and procedures will be addressed through annual performance evaluations, scheduled county program and financial reviews and, as necessary, spot audits.

## **Observation 2: Reporting**

Agents in all 120 county offices report activities to the CES Administration for operational performance and regulatory adherence. To facilitate timely and accurate reporting several mechanisms were implemented. These mechanisms include, but are not limited to, an information systems application and personnel requirements from the Extension Manual. UKIA found these mechanisms to be both dated and inadequate; without the proper oversight, operational effectiveness is hindered.

### **Finding 2.1: Reporting Tools**

For many years, the CES Administration has relied on information provided from the field (CES district offices) to oversee operations. The tools utilized have not been updated and are not keeping in step with today's stringent reporting requirements. Additionally, this data is not used effectively. The lack of oversight puts CES and the University at risk.

#### **Finding 2.1a: KERS**

The KERS System is a software application used by CES to track travel expenses and metrics, including meetings, activities and success stories. The data gathered in KERS is used primarily for state and federal reporting requirements for CES. The application, which has been in use since 1999, is antiquated and inadequate for CES' current reporting needs. Contributing further to UKIA's concerns with KERS are the following:

- CES Administration is not consistently reviewing and validating the information entered by employees into KERS.
- Sign-in sheets do not always match meetings and activities as reported in KERS.
- Employees are not required to enter destination details on their travel reports in KERS.
- KERS allows employees to update and make changes to travel expense reports within the current fiscal year that have already been posted.
- Incorrect per diem meal reimbursement rates were used on travel expenditures.
- Input controls are not adequate to assure data integrity in the KERS system.
- There is no contingency plan in place to ensure the KERS system is operable at all times.
- There is no procedure in place to ensure adequate security of the KERS system.

#### **Finding 2.1b: Check Sheet**

The Check Sheet is a form developed to help the CES county offices track progress regarding audit findings, budget plans, financial reporting, assets and other special projects (see Appendix D for Check Sheet). Instructions for how to complete the original check sheet do not exist and the form itself is unclear. Though CES offices are attempting to use this tool, UKIA noted recurring issues with the completed forms:

- Supporting documents are not consistently reviewed for errors and discrepancies.
- Specific issues regarding CES/KRS/BPM policies are not addressed in detail.
- The check sheets are being filed with district directors, but no follow-up is being performed.

### **Recommendation 2.1: Reporting Tools**

UKIA recommends the following:

1. KERS reporting tool should be augmented accordingly with the following:
  - a. No longer use KERS for travel reporting and adopt SAP travel module where appropriate.
  - b. KERS can be continued to be used as a tool for:
    - i. Communications
    - ii. Metrics
  - c. The KERS system presents continuity, security and data integrity issues and use should be restricted to non-confidential communication.
2. The revised check sheet and instructions (to be provided by UKIA) should be implemented.
  - a. The county review team should review and validate the check sheets completed by the CES offices.

### **Management Response 2.1: Reporting Tools**

1. CES Administration has recently hired a full-time dedicated IT programming employee who will be updating and improving KERS to meet CES's current reporting needs, and to facilitate appropriate oversight of employee activities. The following changes are being made to KERS:

- Responsive/mobile design for the current KERS system is developed and is being tested;
- KERS server was upgraded with new hardware and operating system on March 11;
- Developed a prototype that joins Service Log and Snap Ed records;
- Development of a new database structure that will bring increased flexibility to KERS;
- Significant upgrades to security and data integrity; and
- Better granularity of roles and permissions within the system.

- a. As recommended, KERS will no longer be used for travel reporting. The EDFO, working in conjunction with the CFO and University administration, will explore the process of moving CES's 900+ employees to the SAP travel module. This shift will present certain logistical challenges both for CES and for the University Controller's Office in that it will significantly increase the volume of travel reimbursement requests to be processed through the SAP travel module. Using the SAP travel module will also require changes to the Memoranda of Understanding between the CAFE and the individual counties. Currently, travel reimbursements are handled in the counties by the EDB treasurers. CES Administration will have to decide on a mechanism to move the reimbursement funds from the counties to the CAFE so that reimbursements can be handled through SAP. We must also ensure that reports from the SAP travel module can be made available to CES Administration to ensure that it has necessary data for both programmatic and monitoring purposes.
- b. KERS will continue to be used for metrics and as a communication tool with the various updates and improvements described above.
- c. As described above, KERS is being improved and updated with continuity, security and data integrity as primary areas of focus. KERS will not be used as a tool to communicate confidential matters without first meeting or exceeding University standards and best practices related to continuity, security and data integrity.

2. CAFE and CES Administration welcome input from UKIA to make the financial checklist more comprehensive, more effective and more user-friendly. Working with UKIA, the EDFO Team will develop and implement a training program to ensure that CES county employees understand the checklist and are able to use it effectively as a financial compliance tool. The EDFO Team will use the checklist as a foundation of the county financial review process

a. As stated in Management Response 1, because the county program review teams are comprised of county agents, specialists and CES administrators, they typically do not include individuals with specialized financial knowledge and training. As such, CAFE Administration does not believe the county program review teams are the best entities to perform compliance reviews of the county financial operations. Under the leadership of the EDFO Team, CES will design and implement a separate process for conducting county financial operations reviews in all 120 counties. These reviews will run parallel to the county program reviews and will operate on a to-be-determined rolling schedule.

Results from county financial operations reviews will be reported to the EDFO Team, which will be responsible for working with CAFE and CES leadership to address any identified issues or deficiencies. Both the CFO and the EDFO are accountable to the Dean of the CAFE with respect to addressing and correcting problems identified by these county reviews.

**Finding 2.2: Conflicts of Interest**

UKIA learned during the interview process that several CES agents owned and/or operated businesses which could create potential conflicts of interest. UKIA noted that potential conflicts were not reported and acted upon as per UK regulations.

**Recommendation 2.2: Conflicts of Interest**

In situations where human capital is sparse and business ventures are similar, CES Administration should document, report and educate employees regarding potential conflicts of interest. UKIA recommends the following:

1. The orientation program should review types of conflicts (acknowledged by employee signature as recommended in Governance section)
2. Upon hiring and each year thereafter, employees should be required to validate dominant business ventures. Any potential conflicts and resolutions should be documented and submitted to the Ethics Committee for official opinion.

**Management Response 2.2: Conflicts of Interest**

1. CES Administration will provide comprehensive training regarding all aspects of conflicts of interest issues as part of the new employee orientation process. At the conclusion of orientation, new employees will be required to sign the CAFE Ethics Manual, which addresses, among other things, conflicts of interest.
2. Consistent with UK policies and procedures, CES employees will be required to disclose personal business ventures. Records of these disclosures will be maintained by District Directors for all employees in their district. Disclosures will be revisited annually at the time of performance evaluations. To the extent that these business ventures create a potential or actual conflict of interest, the CAFE Director of Operations will work with the University legal office and the Ethics Committee to address those conflicts.

### Observation 3: CES Unit Operations

The UKIA review of twelve CES county offices in the planning phase revealed inconsistent practices and process vulnerabilities. These weaknesses were consolidated by process and sorted by the responsible organization, as shown in the table below.

#### Exhibit 2: CES Process Vulnerabilities

Organization	Process	Vulnerability
Fiscal Affairs (Extension Offices)	Recordkeeping / Reporting	Inconsistent without a review protocol or office procedure
	Annual External Audit	Non-adherent to KRS and audit finding resolution implementation absent
	Financial Protocols	Ineffective Fiscal Affairs Officer and office procedures
Operational Protocols (Central Office)	Financial Protocols	Inadequate instruction, poor oversight and deficient District Board interaction
	District Directors	Weakened authority from regional responsibility and District Board involvement
	Human Resources	Inconsistent application of UK policies for personnel corrective action
	Incident Reporting	Inadequate communication and awareness of UK reporting requirements
	Communication Protocols	Infrequent meetings impacting information flow and operational alliance

UKIA then proceeded to conduct extensive testing in five additional CES offices located in the districts where these vulnerabilities were most prevalent to more closely examine related transactions and activities. As the audit results were represented in most CES offices evaluated during the planning phase, and many of the vulnerabilities found during the in-depth reviews were ubiquitous across all five CES offices, it is prudent for management to ensure the appropriate resolutions are applied across the entire CES program (see Appendix A for a district map).

**Exhibit 3: Summary of Findings**

Finding Name	Finding	Overall Results
Segregation of Duties	3.1	Financial operations duties were not properly separated nor monitored.
External Audits	3.2	There was no follow-through to properly address the audit findings
Travel	3.3	Travel was not properly documented, nor was it being accurately reviewed and reimbursed.
Disbursements	3.4	UKIA found disbursement documentation to be incomplete, untimely and not approved.
Cash Handling	3.5	Most offices were found to have poor cash management practices.
Asset Management	3.6	Documentation in mileage logs and property records was inadequate.
Volunteers	3.7	Volunteer applications were incomplete, preventing proper screening protocols
Time Reporting	3.8	Non-exempt employees' timesheets were found to misrepresent actual time worked.
Personally Identifiable Information	3.9	PII was not properly safeguarded in many offices.

**Finding 3.1: Segregation of Duties**

UKIA found several instances where financial operations were not sufficiently segregated. Also, there was not proper oversight to protect the CES and the University. CES unit personnel lack expertise and have insufficient training regarding proper procedures and protocols for their assigned business and administrative duties. UKIA also noted that a Certified Public Accountant (CPA), who serves as bookkeeper has an extension credit card in his name, reconciles credit card charges and maintains the records for credit card charges for the district.

**Recommendation 3.1: Segregation of Duties**

This situation should immediately cease, as the CPA should not have disbursement authority. This role should return to the CES office with appropriate review. Per the revised structure in the Governance section, CES office training should be handled by the county review team. Due to the past and current situation, 100% of transactions should be tested and verified.

**Management Response 3.1: Segregation of Duties**

The CPA who serves as bookkeeper to the County Extension office no longer has disbursement authority. That function has been assigned to an agent in the County office, where it will be subject to oversight from the EDFO Team. Based on the recent issues, 100% of the transactions will be tested and verified.

For the reasons stated above, office procedures training for the County offices should not be done by the county program review teams. The EDFO Team, working with the CFO, and based on the guidance provided by UKIA, will be designing and implementing a financial procedures training program to address all aspects of fiscal management and oversight in the county offices. The EDFO Team will also be designing a county financial review process to work in parallel to the county program review process. Results of both reviews processes will be reported to CES leadership, the CAFE Director of Operations, the CFO and the Dean.

**Finding 3.2: External Audits**

Though most districts have to maintain financial records for audit purposes and are required to have external audits conducted in accordance with KRS 65A.030(2)(b). UKIA found that an external audit has not been completed for one of the five counties examined for 2015. In addition, there is no evidence of Central Office reviewing external audit results and in many cases, no actions have been taken to correct external audit findings.

**Finding 3.2a: External Audits (Audit Not Current)**

UKIA noted that at least one of the counties did not have a current audit for FY15.

**Finding 3.2b: External Audits**

At least one county had not addressed the following finding: “Management was unable to prepare draft financial statements, including the related notes to the financial statements. The district board lacks personnel with the expertise to apply the modified cash basis of accounting in preparing its financial statement including note disclosures and thus does not have the internal control procedures required to draft the financial statements in conformity with the modified cash basis of accounting.”

**Finding 3.2c: External Audits**

At least one county was cited in its external audit for not depositing checks in a timely manner. UKIA confirmation of receipts noted that the treasurer deposits checks twice a month, but this process does not constitute timely deposits.

**Finding 3.2d: External Audits**

At least one county was cited for having the following issues and failing to rectify them:

- **Safeguarding of Investments:** The District Board has purchased a fire and waterproof safe to store investments. However, the safe was not being used. At the time of the audit, the CES Office's staff did not have a key to the safe and the safe was not being used. In addition, a certificate of deposit was kept in a locked cabinet to which other employees had access.
- **Segregation of Duties:** Cash receiving duties and bank reconciliation duties were not segregated from bookkeeping activities. The bookkeeper receives cash, performs bank reconciliations, writes checks and records transactions.
- **KRS Statute violation:** UKIA found that this county did not correct a prior finding by obtaining an adequate surety bond for the chair and treasurer. Surety bonds protect the cash assets of a district and are required by law.

### **Recommendation 3.2: External Audits**

UKIA recommends that all external audits be reviewed by the College of Agriculture Financial Administrator and shared with Financial Operations Services. The County Review Team and Fiscal Affairs Coordinator should be responsible for follow-up activity. Additionally, the following should occur:

1. CES offices should ensure that external audits are conducted as required by KRS 65A.030 (2) (b).
2. District directors and CES agents responsible for finances should address all significant deficiencies in internal control as noted by the external financial audit for each county.
3. Office staff members who are responsible for transaction preparation, transaction recording, bookkeeping or financial reporting should receive additional training in GAAP for non-profits from their county review team.

### **Management Response 3.2: External Audits**

1. Under the leadership of the EDFO Team, CAFE and CES Administration will review the audit status for all 120 CES county offices to ensure that there is full compliance with the requirements of KRS 65A.030(2)(b). Going forward, the EDFO Team will be responsible for monitoring compliance with KRS 65A.030 (2) (b) and ensuring that there is appropriate follow-up to any deficiencies identified in the audit reports. The EDFO Team will provide annual training on compliance matters and will conduct its own scheduled county financial reviews and, as necessary, spot audits.
2. The EDFO Team will report all deficiencies identified by county audits to the CES Administration, as well as the CAFE Director of Operations, the CFO and the Dean. The Director of Operations and the CFO will be responsible for ensuring that the EDFO Team works with the county EDBs to ensure that deficiencies noted in the audits are appropriately addressed. Failure to address identified deficiencies shall be reported to the Director of CES and the Dean.
3. For the reasons stated previously, office procedures training will not be done by the county program review teams. Based on guidance from UKIA, the EDFO Team will be designing and implementing a financial operations training program that will be used statewide.

Competency and compliance will be addressed through scheduled county financial reviews and spot audits, as necessary. This training will be based on the GAAP that are reflected in the University's business procedures.

**Finding 3.3: Travel**

UKIA found that some travel vouchers lacked specific destination information preventing the validation of accurate mileage counts. In addition, some travel reimbursement requests contained errors in per diem meals and were missing supporting documentation.

**Finding 3.3a: Travel (Duplicate Reimbursements)**

Audit evidence found two incidences of employees being reimbursed twice for the same travel expenditures. In one instance, the employee received a duplicate reimbursement and in the other, an employee was reimbursed for the same travel expenses with a different amount. These testing results require UKIA to complete 100% transactional testing for the defined scope period.

**Finding 3.3b: Travel (Documentation)**

Travel disbursement records in several counties revealed the following concerns:

- Inadequate documentation to support travel was submitted with the reimbursement requests (including receipts).
- Mileage had been reimbursed at incorrect rates.
- Destination details were not reported properly.

**Recommendation 3.3: Travel**

UKIA recommends CES office utilize the University travel module. This process will provide the required review and approval process. Training of CES personnel should also occur on a regular basis by Fiscal Affairs Coordinator.

**Management Response 3.3: Travel**

As recommended, KERS will no longer be used for travel reporting. The EDFO, working in conjunction with CES IT, CAFE and University administration, will address the logistics of moving CES's 900+ employees to the SAP travel module. This shift will present certain challenges both for CES and for the University Controller's Office in that it will significantly increase the volume of travel reimbursement requests to be processed through the SAP travel module. Using the SAP travel module will also require changes to the Memoranda of Understanding between the CAFE and the individual counties. Currently, reimbursements are handled in the counties by the EDB treasurers. CES Administration will have to decide on a mechanism to move the reimbursement funds from the counties to the CAFE so that reimbursements can be handled through SAP. We must also ensure that reports from the SAP travel module can be made available to CES Administration to ensure that it has necessary data for both programmatic and monitoring purposes.

**Finding 3.4: Disbursements**

UKIA found some disbursement documentation to be incomplete, untimely and not approved. In addition to missing receipts, requests for reimbursement were often approved by an agent and paid without the required requests for reimbursement voucher/payment forms attached. According to the County Office Procedures, Money Handling, Financial Guidelines, Expenditures, “Bills should not be paid by Treasurer without a Request for Reimbursement Voucher and a receipt. Employees should use Request for Reimbursement/Payment form with receipts attached.” These vulnerabilities created situations for the following to exist:

**Finding 3.4a: Disbursements (Credit Cards)**

UKIA audit tests revealed late fees were incurred due to late payments made on credit cards and revolving gas charge cards.

**Finding 3.4b: Disbursements (Inadequate Documentation and Sales Tax)**

UKIA audit results revealed inadequate supporting documentation for reimbursements, missing approvals and improperly paid sales tax.

**Finding 3.4c: Disbursements (Dated Reimbursements)**

UKIA found that one District office reimbursed an expenditure from the prior year. These testing results require UKIA to conduct additional testing for the defined scope period.

**Finding 3.4d: Disbursements (Checks)**

UKIA audit tests revealed that disbursement check numbers were not always recorded accurately in the check log or general journal. UKIA noted that the check numbers for payments as listed in the check registry and general journal did not agree with the check numbers for the same payments that were shown as cleared in the bank statements. Audit tests revealed that this error occurred on five different occasions. On one occasion two separate payments were listed on the check register with the same check number. As a result, the check numbers in the check log or general journal did not agree with actual check numbers as documented on the bank statement.

**Recommendation 3.4: Disbursements**

UKIA recommends the following for appropriate review and approval:

1. CES county offices should have a signature delegation authority document. The final approval will include all supporting documentation.
2. Late Payments
  - i. Disbursement activities should be added to County Review Teams action plans or check sheets.
  - ii. CES office financial concerns should roll up to the recommended reporting structure (CES Fiscal Affairs Coordinator) for review and report out.

### **Management Response 3.4: Disbursements**

1. The EDFO has assumed leadership regarding all business processes within CES, including creation of a delegation of signature authority to be used in all 120 county offices. Based on guidance provided by UKIA, the EDFO Team will design a delegation of signature authority document, provide training on same, and, through the financial oversight reviews, monitor compliance.
2. Disbursement activities will be a focus of the financial operations training and monitoring provided by the EDFO Team. With guidance from UKIA, the EDFO Team will ensure that county agents are adequately trained in this area, and that compliance is addressed through scheduled county financial reviews and, if necessary, spot audits. CAFE and CES Administration will work with the appropriate University offices to correct any deficiencies identified through scheduled county financial reviews or spot audits.

### **Finding 3.5: Cash Handling**

UKIA frequently found checks that had not been restrictively endorsed immediately upon receipt, as well as signed blank checks. A proper petty cash fund was not always maintained. If change was needed, it was made from other receipts or funds. This process allowed CES county offices to comingle CES office, club and other organization funds. These practices are representative of poor cash management and increase the possibility of misappropriation.

#### **Finding 3.5a: Cash Handling (Petty Cash)**

Some county offices did not abide by CES guidelines for petty cash fund. UKIA found the following issues regarding petty cash:

- Change for cash payments was made from other receipts and/or funds, thus comingling CES Office's monies with funds from clubs and other organizations.
- One county's petty cash fund exceeded \$100. When UKIA counted this fund, it totaled \$104.72.
- One county's petty cash fund was also reimbursed with checks of \$50 and \$100 without any reconciliations of the petty cash fund to foster the proper classification of actual expenditures. These \$50 and \$100 checks were classified as supplies when these costs were for postage, program support or other costs that should have been classified differently.

**Finding 3.5b: Cash Handling (Security)**

A few counties were discovered to have improper safeguarding of cash as follows:

- One county had custody of cash and checks from an outside agency that were up to five months old. Cash and checks on hand were kept in administrative personnel's locked desk; however, a safe was on the premises but was not being utilized for the safekeeping of cash.
- One county had blank checks signed in the safe for council funds (AG and FCS). The safe was not bolted down and the keys were not secure. UKIA observed the key holder leaving the keys out on a desk during business hours.

**Finding 3.5c: Cash Handling (Segregation of Duties)**

A county office employee reconciles one of the council's funds and is responsible for printing checks for all council funds.

**Finding 3.5d: Cash Handling (Late Deposits)**

One Office had \$14,648.11 in cash and checks on hand that had not been deposited within the last month.

**Recommendation 3.5: Cash Handling**

UKIA recommends that the processes in this observation should be emphasized in the County Review Team check list. Financial procedures should be implemented and executed in the above areas with the proper oversight by the CES fiscal coordinator.

**Management Response 3.5: Cash Handling**

For the reasons stated previously, county business operations training will be the responsibility of the EDFO Team. Based on guidance received from UKIA, the EDFO Team will design and implement an annual business operations training and monitoring program to be used statewide. Compliance with applicable business procedures will be monitored through scheduled business operations reviews and, if necessary, spot audits. CAFE and CES Administration will work with the appropriate University offices to correct any deficiencies identified through periodic reviews or spot audits.

### **Finding 3.6: Asset Management**

A review of how assets are being managed within several CES county offices uncovered property records that are incomplete. This includes missing information and delinquent updates. UKIA noted vehicle mileage logs were either absent or incomplete and UKIA was unable to determine business and personal use. Personal use of vehicles must be reported on the W-2s of CES employees as additional income.

#### **Finding 3.6a: Asset Management (Mileage Logs)**

UKIA uncovered the following issues regarding mileage logs:

- Mileage logs for one county's seven vehicles were not completed properly. As a result, the business use of vehicles could not be accurately determined.
- Other counties were found not to keep mileage logs for their vehicles, thus preventing the business use of these vehicles from being determined.

#### **Finding 3.6b: Asset Management (Property Records)**

The following concerns were noted regarding property records:

- Property records for some counties were found to be incomplete or have not been updated on a regular basis. Consequently, items that have been sold or disposed of were still listed as assets.
- Property (inventory) records for at least one county were non-existent. With no asset listings available, any items that may be lost or missing from the extension office could not be determined.
- In several counties, the ID Number on the Equipment Inventory Form was not always completed. In addition, these Equipment Inventory Reports consistently lacked serial numbers and/or model numbers.

#### **Recommendation 3.6: Asset Management**

An inventory of all equipment, furnishings, books, resource materials and important records should be taken annually and clearly documented using separate inventory lists for CES office-owned and UK-owned property. In addition, vehicle mileage logs should be implemented and kept current for each CES office and monitored by the CES Fiscal Coordinator. IRS rules regarding vehicle usage must be followed without exception.

#### **Management Response 3.6: Asset Management**

CES Administration will adopt the University's EBARS system for property management, which includes and an annual inventory process for all vehicles, equipment, furnishings, books and resource materials. As there are both county-owned and University-owned property in the county offices, the inventory process must be able to distinguish between those items. This will require input and support from central UK administrative units. The CAFE Minor Equipment Policy must also be implemented into the inventory processes for CES.

Vehicle mileage logs will be used for all vehicles driven by county agents for business purposes. Spot audits will be used to ensure that county-owned vehicles will be closely monitored to ensure that they are only being used for business purposes. The EDFO Team will ensure that county employees receive adequate training regarding IRS regulations related to vehicle usage and reporting and that those regulations will be followed without exception.

**Finding 3.7: Volunteers**

UKIA found several instances where the files kept for CES volunteers were missing key information such as drivers' licenses, background checks and supervisory approvals (signatures). In order to be accepted as a volunteer, the entire application packet must have been completed and the entire screening protocol followed. Incomplete applications should not be processed.

**Finding 3.7a: Volunteers (Incomplete Applications and Supervisor Signatures)**

Volunteer files contained incomplete applications and, in some cases, certain forms had not been completed. Additionally, supervisor signatures were missing from volunteer applications.

**Finding 3.7b: Volunteers (Driver's License Records)**

Driver's license information was not available or the license on record had expired.

**Finding 3.7c: Volunteers (Background Checks)**

Some files had no background checks performed. This is especially important for volunteers working with minors.

**Recommendation 3.7: Volunteers**

A centralized protocol should be established with proper signature delegation for volunteer programs. Additionally, the county review team should add this to the check sheet, with particular emphasis on adequate background checks and maintaining current drivers' licenses.

**Management Response 3.7: Volunteers**

A centralized protocol already exists for management of the CES volunteer program and adherence to this protocol is meant to be addressed during the county program reviews. County program review training will focus on appropriate management of volunteers and non-compliance will be reported to the CAFE Director of Operations, who will ensure that this protocol is being followed consistently and that volunteers are not permitted to begin their assigned duties until all required documentation has been submitted. County program review teams will focus on record-keeping as it relates to volunteers and, failure to follow rules will result in corrective action.

### **Finding 3.8: Time Reporting**

Audit interviews revealed that nonexempt employees might not report overtime work hours. UKIA could not confirm these assertions since most offices do not use punch cards or hand-written time sheets to report work hours.

#### **Finding 3.8: Time Reporting**

UKIA found that the worktime on the punched time cards did not agree with the time entered into MYUK. The work time stated on the time cards was higher than the time as entered into MYUK. Consequently, overtime may not have been properly recorded.

#### **Recommendation 3.8: Time Reporting**

Within the created strategic plan, a structure to define exempt and nonexempt positions should correspond with the responsibilities assigned from the new organizational structure. Accordingly, a consistent timekeeping method should be utilized across the CES enterprise. This responsibility should reside with the Fiscal Affairs Coordinator.

#### **Management Response 3.8: Time Reporting**

As stated above, through the Extension Review, CES is undergoing a comprehensive examination of its organizational structure to look for opportunities to improve operations and compliance. This will include reviewing exempt and non-exempt positions and ensuring responsibilities are appropriately assigned. CES Administration – led by the EDFO Team – will determine the most effective timekeeping method and apply it across the CES enterprise. Employees will be given training about the Fair Labor Standards Act and the need to manage employee time with its requirements in mind. To the extent that overtime hours are worked, they will be paid as required by the FLSA. CES Administration will explore using district support staff to assist in monitoring and reviewing of time entry, and with other payroll functions.

### **Finding 3.9: Personally Identifiable Information (PII) Security**

Many offices are not securing personally identifiable information (PII). Background checks and 4-H records, both of which contain social security numbers, birth records, names, addresses and other PII information, were found in insecure locations. UKIA noted the following specific PII safeguarding concerns:

- 4-H records are not in the office and instead are transported in the agent's vehicle or are kept at the agent's personal residence.
- 4-H records, which contain PII, are kept inside an unlocked cabinet in an office that is currently vacant.
- 4-H records containing PII information are stored on an unsecured shelf located in an office that is shared by several employees in a high traffic area.

**Recommendation 3.9: Personally Identifiable Information (PII) Security**

UKIA recommends that PII should be locked in a fire proof filing cabinet in the CES office and access limited to those staff members who require it to carry out the duties of their positions.

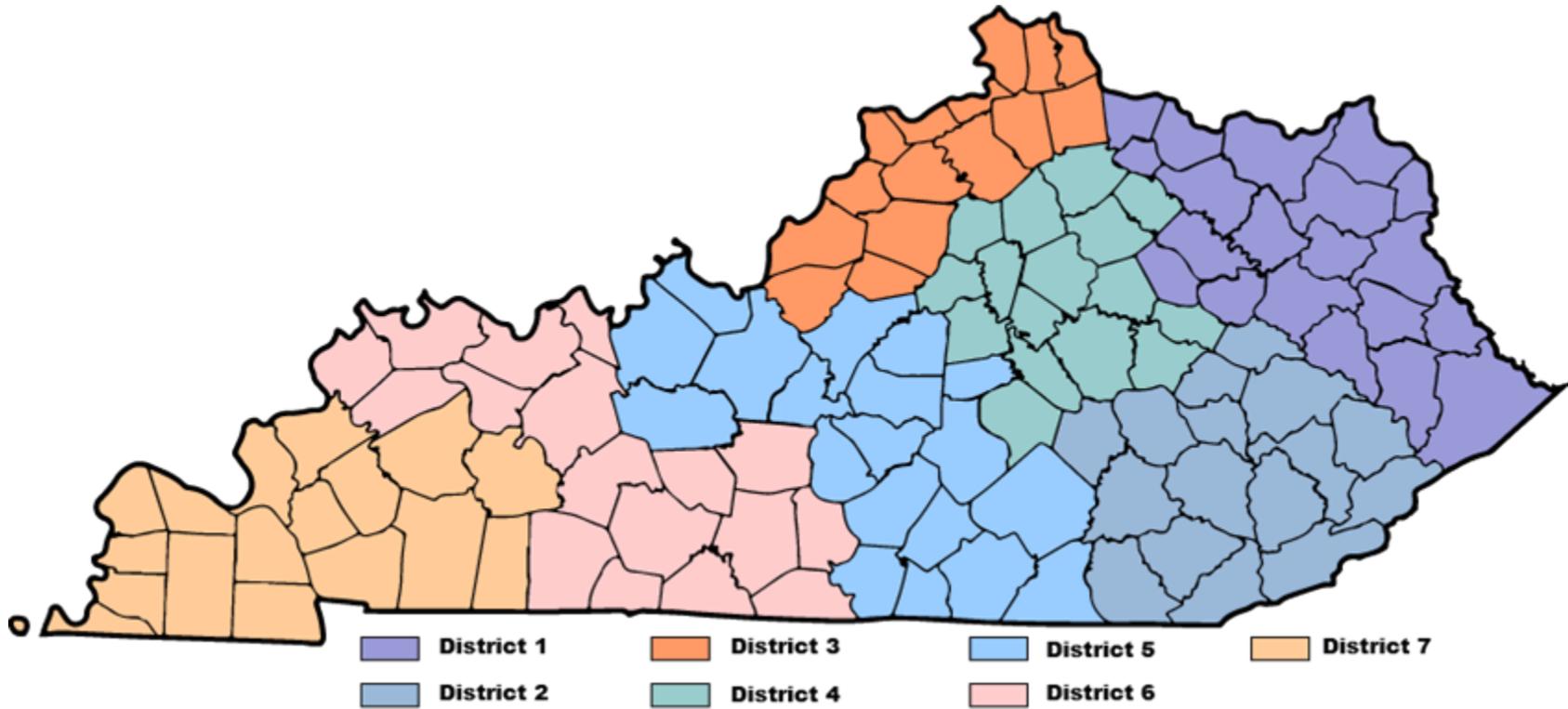
**Management Response 3.9: Personally Identifiable Information (PII) Security**

All PII will be appropriately secured and only accessed by those who need to use it in the course and scope of their official duties. Compliance will be addressed through spot audits conducted by District Directors.

## APPENDICES

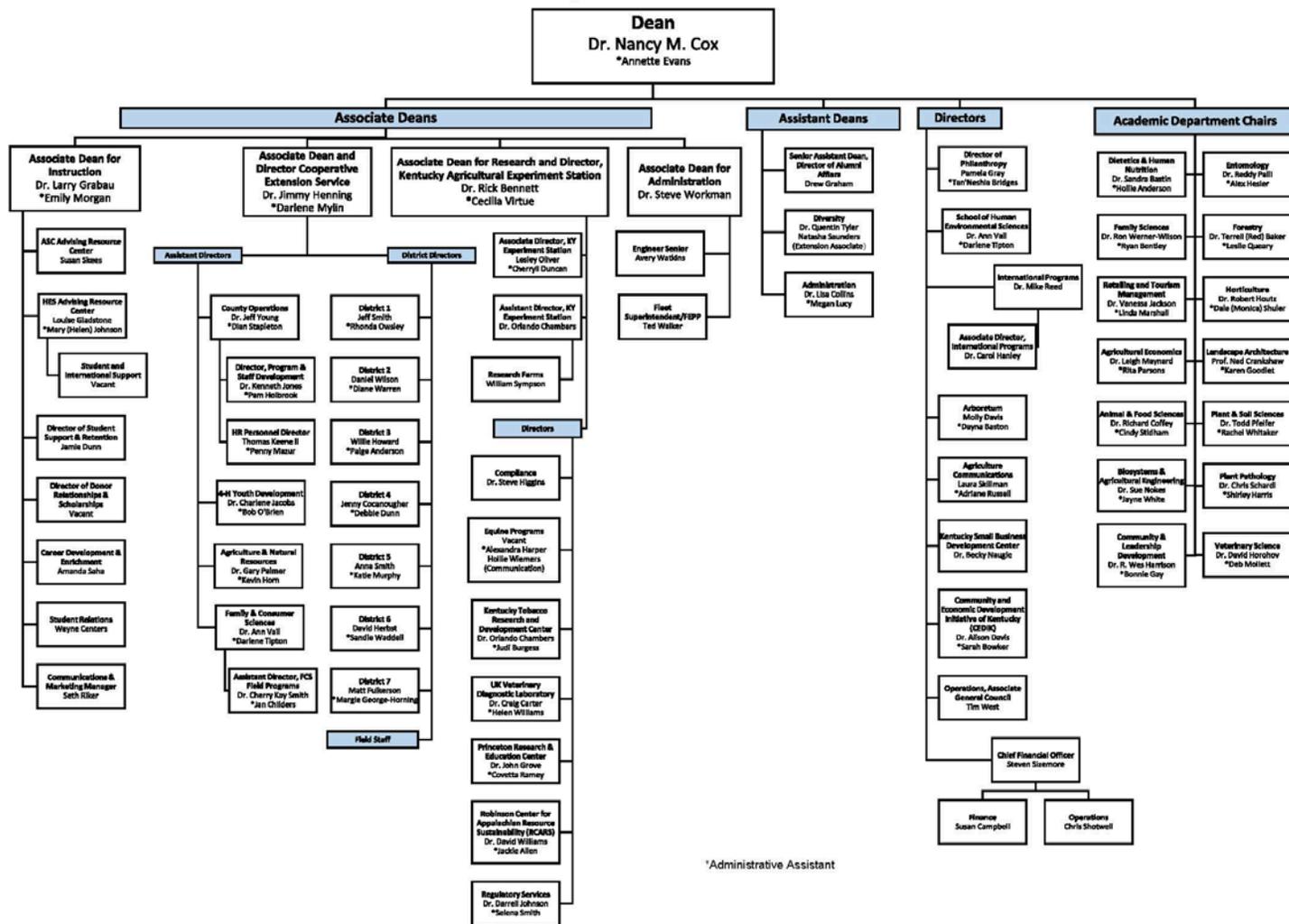
### Table of Contents

### Appendix A: District Map



## Appendix B: Organizational Structure

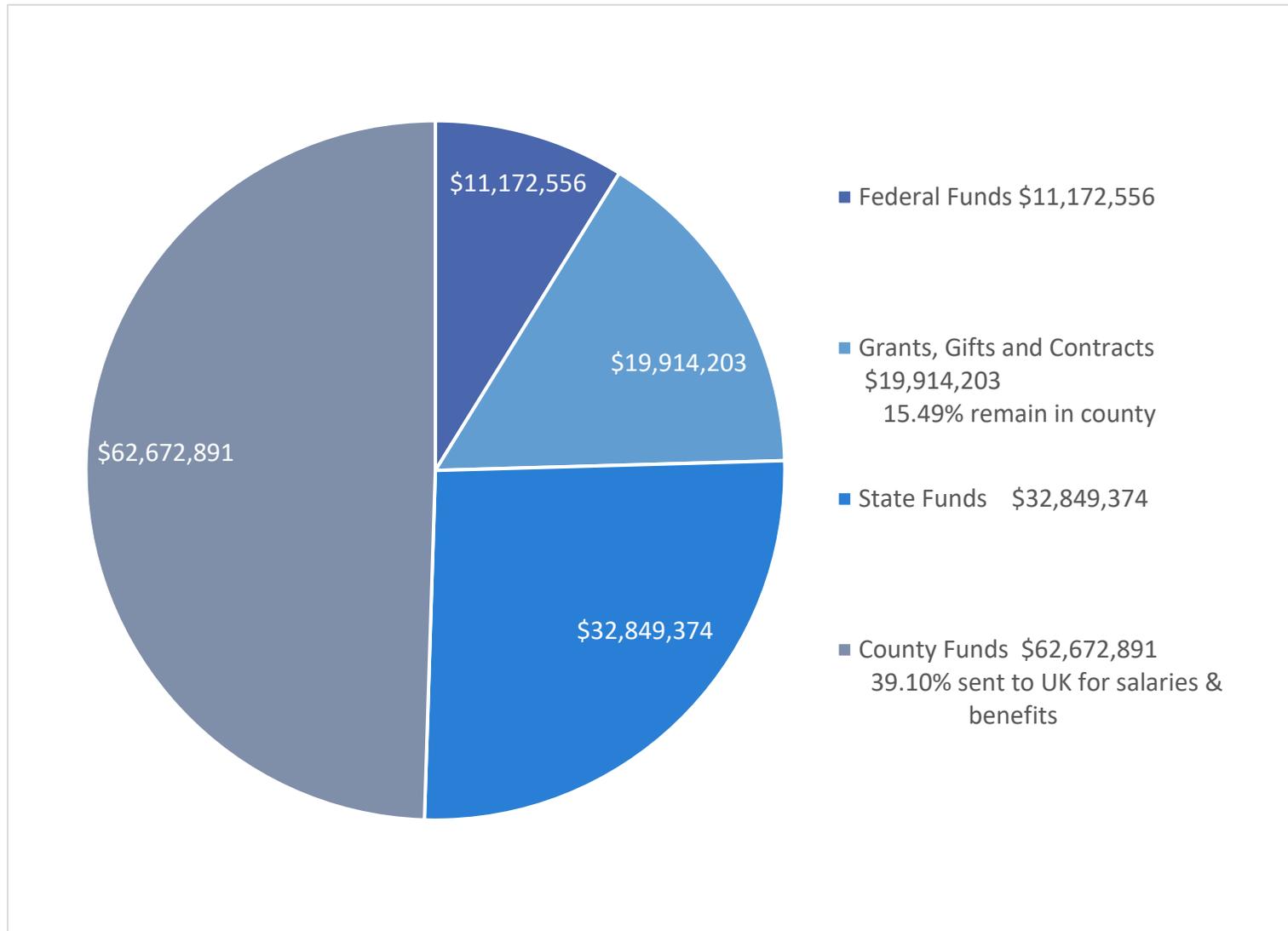
### University of Kentucky College of Agriculture, Food and Environment Organizational Chart



\*Administrative Assistant

8/29/2016

### Appendix C: CES Funding Sources FY2016



## Appendix D: CES Check Sheet

### Check Sheet for Audits in Counties

	Yes	Comments
Financial Statement audits current		
Preparation of annual budget plans		
Submission of DLG budget		
Submission of LF budget information		
Preparation Treasurer's report with budget analysis ( grants included)		
Bank security agreements with District Boards		
Special District Reporting Forms		
Treasurer bonded (125% largest sum)		
Offset voucher		
Uniform Financial Report		
Published legal notice with Financial Summary included		
Investment policy written		
Credit Card Standards adopted by District Board		
Bank Reconciliation – monthly by treasurer or 3 <sup>rd</sup> party		
Outsourcing of accounting to bonded professionals (if applicable)		
Receipts for all monies received (ledgers kept)		
Receipts for all monies paid		
Receipts include name, address, & phone # with explanation of bill		
No blank checks signed in the office		
No Extension employee signing checks or on bank file		
All receipts attached to standard invoice to include account to be debited		
Accurate and detailed District Board minutes		
Petty Cash procedures follow guidelines in Office Procedure Notebook		
Up-to-date inventory of equipment		
Insurance adequate for building, equipment, etc.		
Follows money handling procedures outlined in Office Procedures Notebook—FY11		
Completed audits and attestations sent to DLG and District Director		
Minutes of District Board where audit recommendations were discussed are sent to District Director		
Audit presented to CEC		

Attach to county audit and submit to District Director

**Comprehensive Review**

**Cooperative Extension Services**

**Report No. 2017 CC02**

**November 28, 2016**

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**UKIA Mission Statement**

*To support UK in its pursuit of excellence by providing advisory and assurance guidance to champion reasonable assurance regarding the achievement of management objectives.*