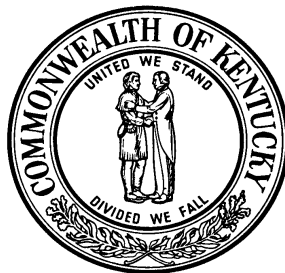


**REPORT OF THE AUDIT OF THE
KENTUCKY BOARD OF CHIROPRACTIC EXAMINERS**

**For The Fiscal Years Ended
June 30, 2018 and June 30, 2019**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Dr. Jeffery Smith, Board Chair
Kentucky Board of Chiropractic Examiners
P.O. Box 1360
Frankfort, KY 40601

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Kentucky Board of Chiropractic Examiners (KBCE), as of and for the years ended June 30, 2018 and June 30, 2019, and the related notes to the financial statements, which collectively comprise KBCE's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

KBCE's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 statements 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 statements.



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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the KBCE, as of June 30, 2018 and June 30, 2019, and the respective changes in financial position – modified cash basis and, where applicable, cash flows, thereof for the year then ended on the basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 1, 2020 on our consideration of KBCE'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 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 KBCE's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon". The signature is written in a cursive style with a long horizontal stroke at the end.

Mike Harmon
Auditor of Public Accounts

June 1, 2020

FINANCIAL STATEMENTS

**KENTUCKY BOARD OF CHIROPRACTIC EXAMINERS
BALANCE SHEET - MODIFIED CASH BASIS
AS OF JUNE 30, 2018 AND JUNE 30, 2019**

	<u>2018</u>	<u>2019</u>
Assets		
Cash and Cash Equivalents (Note 3)	\$ 351,504	\$ 292,966
Total Assets	<u>\$ 351,504</u>	<u>\$ 292,966</u>
 Fund Balance		
Restricted (Note 2)	\$ 351,504	\$ 292,966
Total Fund Balance	<u>\$ 351,504</u>	<u>\$ 292,966</u>

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

**KENTUCKY BOARD OF CHIROPRACTIC EXAMINERS
STATEMENT OF RECEIPTS, EXPENDITURES,
AND CHANGES IN FUND BALANCES – MODIFIED CASH BASIS
FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2019**

	<u>2018</u>	<u>2019</u>
Receipts		
License Renewal Fees	\$ 240,500	\$ 240,525
License Application Fees	15,725	14,025
Receipts from Fines	26,700	12,250
Other Receipts	35,875	21,012
Total Receipts	<u>318,800</u>	<u>287,812</u>
Expenditures		
Payroll and Other Benefits	193,938	195,596
Pension and Other Post-Employment Benefits (Note 4)	60,104	94,988
Professional Services	2,646	20,914
Utilities, Rent, and Insurance	13,786	13,298
Travel	5,164	5,991
Banking Fees		9,719
Office Supplies	3,011	2,276
Other Expenditures	8,696	3,568
Total Expenditures	<u>287,345</u>	<u>346,350</u>
Net Change in Fund Balance	31,455	(58,538)
Fund Balance, Beginning	320,049	351,504
Fund Balance, Ending	<u>\$ 351,504</u>	<u>\$ 292,966</u>

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

NOTES TO THE FINANCIAL STATEMENTS

KENTUCKY BOARD OF CHIROPRACTIC EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2019

Note 1 – Nature of Organization

The Kentucky Board of Chiropractic Examiners (KBCE) is responsible for regulating the practice and licensure of chiropractors in the Commonwealth of Kentucky. KBCE grants initial licensure to qualified chiropractors and oversees the annual renewal of licenses. KBCE also investigates complaints against practitioners and is responsible for imposing disciplinary sanctions against those who violate Kentucky Revised Statutes, Chapter 312 and Kentucky Administrative Regulations, Title 201, Chapter 21. KBCE promulgates regulations concerning professional and business practice standards, continuing education and licensure requirements. No person shall engage or attempt to engage in the practice of chiropractic or hold out to be a doctor of chiropractic in Kentucky unless licensed by KBCE.

Oversight and governance of KBCE is maintained by a five member board. The members are appointed by the Governor and serve a standard three year term limit, but may serve longer should a new appointee not be selected.

Prior to May of fiscal year 2019, the administrative functions of KBCE were performed by staff based in Glasgow, Kentucky. In March 2019, KBCE elected to transition these administrative duties to the Department of Professional Licensing (DPL) in Frankfort, Kentucky beginning in May of fiscal year 2019. KBCE's contract with DPL is effective from May 3, 2019 through June 30, 2020. The total contract amount was \$255,500, \$36,500 for FY19 and \$219,000 for FY20.

Note 2 – Summary of Significant Accounting Policies

This summary of significant accounting policies of KBCE is presented to assist in understanding KBCE's financial statements. The financial statements and notes are the representation of KBCE's management, who is responsible for their integrity and objectivity. These accounting policies conform to the modified cash basis of accounting described below and have been consistently applied in the presentation of the financial statements.

Basis of Presentation

The accompanying financial statements have been prepared on a cash basis of accounting modified by the application of KRS 45.229, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This statute provides that for a period of 30 days after the close of any fiscal year, warrants may be drawn against available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during the year or in fulfillment of contracts properly made during the year but for no other purpose.

**KENTUCKY BOARD OF CHIROPRACTIC EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2019
(Continued)**

Note 2 – Summary of Significant Accounting Policies (Continued)

Receipts

KBCE is primarily funded through new and recurring license fees paid by practitioners of chiropractic. Other funding streams include fines and other administrative fees. Receipts are recognized when deposited in the Commonwealth's Treasury account in accordance with the modified cash basis of accounting.

Expenditures

KBCE recognizes expenditures when they are paid in accordance with the modified cash basis of accounting.

Restricted Fund Balance of KBCE

The total fund balance is restricted, in accordance with KRS 312.019, to be used to meet necessary expenditures of KBCE. The fund balance of KBCE represent the difference between assets and liabilities reported on the balance sheet. No liabilities are reported in accordance with the cash basis of accounting.

Note 3 – Cash and Cash Equivalents

Participation in the Commonwealth's Internal Cash and Investment Pool

KBCE receipts are deposited in the Commonwealth of Kentucky's (Commonwealth) general depository administered by the State Treasurer, who has statutory responsibility and authority to safeguard the monies. KBCE participates in the internal cash and investment pool of the Commonwealth. Therefore, it follows the policies established by the Commonwealth for all pooled cash and investments. The Commonwealth's internal investment pool offers same day liquidity with no limitations, fees or restrictions on withdrawals. The risk disclosures related to deposits and investments are reported in the Commonwealth's Comprehensive Annual Financial Report (CAFR). Accordingly, the CAFR should be referred to for disclosures required by the Governmental Accounting Standards Board. For the year ended June 30, 2018, KBCE's position in the pool totaled \$351,504 and for the year ended June 30, 2019, KBCE's position in the pool totaled \$292,966.

**KENTUCKY BOARD OF CHIROPRACTIC EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2019
(Continued)**

Note 3 – Cash and Cash Equivalents (Continued)

External Bank Account

Prior to May 2019, KBCE utilized an external bank account in addition to the Commonwealth's Treasury. The purpose of this bank account was to hold monies received from license fees and fines deposited through electronic funds transfers (EFT), checks, or cash. The account was closed in May 2019 when KBCE transitioned administrative duties from a management staff in Glasgow, Kentucky to the Department of Professional Licensing in Frankfort, Kentucky. For the year ended June 30, 2018, KBCE held an account balance with the external bank of \$1,244, and for the year ended June 30, 2019, there was no balance remaining as the residual funds had been transferred to the Commonwealth's Treasury.

Note 4 – Retirement and Other Post Employment Benefit Plans

The employees of KBCE participate in the Kentucky Employees Retirement Systems (KERS) of the Commonwealth of Kentucky, which is a cost-sharing, multiple-employer, defined benefit pension and other post-employment benefits (OPEB) plan covering substantially all regular full-time employees. The plan provides retirement, disability, and death benefits to plan members. KERS provides for cost-of-living adjustments at the discretion of the Kentucky legislature.

Employees who retire at or after age 65 with 48 months of credited service are entitled to a retirement benefit based on a range of 1.97% to 2.2% of their final average salary multiplied by their years of service. Final average salary is the employee's average of the three or five fiscal years during which the employee had the highest average monthly salary. Benefits fully vest on reaching five years of service. Vested employees may retire after 27 years of service and receive full benefits; or retire after age 55 and receive reduced benefits. KERS also provides death and disability benefits. Benefits are established by Kentucky Revised Statutes.

The KBCE portion of payroll for employees, who are all covered by KERS, for the year ended June 30, 2018 totaled \$152,853. Covered employees are required by state statute to contribute five percent of their salary to KERS. For fiscal year 2018, KBCE was required by the same statute to contribute 41.06 percent of the covered employees' salaries for pensions and 8.41 percent for OPEB. The total employer contributions made for the year ended June 30, 2018 was \$49,961 for pensions and \$10,233 for OPEB.

The KBCE portion of payroll for employees, who are all covered by KERS, for the year ended June 30, 2019 totaled \$156,595. Covered employees are required by state statute to contribute 5 percent of their salary to KERS. For fiscal year 2019, KBCE was required by the same statute to contribute 71.03 percent of the covered employees' salaries for pensions and 12.4 percent for OPEB. The contribution requirement for the year ended June 30, 2019 was approximately \$80,158 for pensions and \$13,993 for OPEB.

**KENTUCKY BOARD OF CHIROPRACTIC EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2019
(Continued)**

Note 4 – Retirement and Other Post Employment Benefit Plans (Continued)

On June 27, 2008, House Bill 1, the Pension Reform legislation, was signed into law. This legislation significantly impacted retirement benefits for employees who begin participating with KERS on or after September 1, 2008. The law also includes provisions that will affect current employees and retirees. For those employees beginning participation on or after September 1, 2008 they will be required to contribute 5 percent of their annual covered salary for the KERS Pension Fund. Employers, including KBCE, will continue to be required to contribute an actuarially determined rate. House Bill 1 contained a provision expressing the intent of the General Assembly to gradually increase the employer contributions to KERS beginning July 1, 2010. If in the future the General Assembly adheres to this schedule, all participating agencies will be required to pay the full employer contribution by 2025.

Covered employees hired after December 31, 2013, are eligible to participate in a cash balance plan which requires employees to pay a pre-tax 5 percent rate based on creditable compensation. The employee's account is also credited with a 4 percent employer pay credit. At the end of each fiscal year, interest is paid into the employee's account. The account is guaranteed 4 percent interest credit on the employee's account balance as of June 30 of the previous year. The employee's account may be credited with additional interest if the five-year average investment return exceeds 4 percent. At the time of termination, the employee is eligible to either take a refund of the accumulated account balance if vested (five or more years of service), or annuitize their account balance, if eligible for retirement. If the employee terminates employment and requests a refund prior to vesting, the employee is eligible only for the employee's contributions and associated interest, and forfeits the employer pay credit and associated interest.

Contribution rates for OPEB for employers and employees are established by the Budget Bill. Members who were hired before September 1, 2008 do not contribute to the OPEB plan directly. Instead, assets have been allocated between pension and retiree medical liabilities on the basis of accrued liability as of July 1, 2007. This amount has then been brought forward from that date based on actual cash flows and prorated allocation of investment returns. Members hired on or after September 1, 2008 contribute 1 percent of their official salary.

Ten-year historical trend information showing KERS progress in accumulating sufficient assets to pay benefits when due is presented in the KERS Annual Financial Report (which is a matter of public record). The Commonwealth's Comprehensive Annual Financial Report (CAFR) should be referred to for additional disclosures related to the KERS.

Because these financial statements are prepared on the modified cash basis, certain disclosures and financial statement accounts related to GASB 68 and GASB 75 are not applicable and therefore not included in the financial statements or notes to the financial statements. For disclosures related to GASB 68 and GASB 75, see the Commonwealth's CAFR.

**KENTUCKY BOARD OF CHIROPRACTIC EXAMINERS
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2019
(Continued)**

Note 4 – Retirement and Other Post Employment Benefit Plans (Continued)

In addition to the defined benefit pension plan, KBCE's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship. The Commonwealth's CAFR should be referred to for additional disclosures related to the deferred compensation plans.

Note 5 – Subsequent Events

COVID-19

The COVID-19 pandemic in the United States of America has negatively impacted the national, state, and local economy. Specific to KBCE, chiropractors were forced by government order to cease operations temporarily. While the disruption is expected to be temporary, there is considerable uncertainty surrounding its duration. Therefore, the consequential financial impact and duration cannot be reasonably estimated at this time.

Extension of DPL Contract

In May of fiscal year 2020, the contract with DPL was extended to June 2022. The services are the same as the previous contract with a total price of \$450,000. This agreement covers fiscal years 2021 and 2022.

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



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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

Independent Auditor's Report

Dr. Jeffery Smith, Board Chair
Kentucky Board of Chiropractic Examiners
P.O. Box 1360
Frankfort, KY 40601

We have audited, in accordance with the 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 modified cash basis financial statements of the Kentucky Board of Chiropractic Examiners (KBCE) as of and for the years ended June 30, 2018 and June 30, 2019, and the related notes to the financial statements, which collectively comprise KBCE's basic financial statements, and have issued our report thereon dated June 1, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KBCE'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KBCE's internal control. Accordingly, we do not express an opinion on the effectiveness of KBCE's internal control.

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 statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify the following deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be a significant deficiency: KBCE-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KBCE's financial statements are 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

KBCE's Response to Findings

KBCE's response to the findings identified in our audit are described in the accompanying Schedule Findings and Recommendations. KBCE's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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,

A handwritten signature in black ink, appearing to read "Mike Harmon", written over a horizontal line.

Mike Harmon
Auditor of Public Accounts

June 1, 2020

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**KENTUCKY BOARD OF CHIROPRACTIC EXAMINERS
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2019**

KBCE-01: The Kentucky Board of Chiropractic Examiners Did Not Maintain Adequate Supporting Documentation To Verify Receipt Classifications

As part of the fiscal year 2018 and 2019 audit of the Kentucky Board of Chiropractic Examiners (Board) the process for classifying receipts was reviewed. Payments are received by the Board for a variety of reasons including license applications, license renewals, fines, and other administrative expenses. These various receipt classifications are reflected in the financial statements.

In fiscal year 2018, and most of fiscal year 2019, a bank account external to the Commonwealth's Treasury was used to deposit checks and electronic payments prior to transferring the funds to the Commonwealth's Treasury account. The classification of the receipts for financial reporting purposes occurred when the funds were transferred to the Commonwealth and subsequently recorded in the Commonwealth's accounting system, eMARS.

Because of a lack of supporting documentation maintained by the Board, auditors could not verify the accuracy of the classification of Board receipts within eMARS.

With the transition of administrative services to the Department of Public Licensing (DPL) via contract, external bank accounts are no longer being utilized for the Board's operations and both electronic and check payments are deposited directly in the Commonwealth's Treasury account.

The cause of this deficiency is that the Board did not maintain adequate documentation to support receipt classifications.

If classification of receipts is not consistent or supported by documentation, then the financial statements could be misstated. Even if the receipts are accounted for in total, erroneous or improper classifications could lead to the Board relying on inaccurate information to achieve its objectives or make governance decisions.

Proper internal controls assist in preventing and detecting any potential misstatement that may occur and accurately presenting the financial operations of the Board in the financial statements.

Recommendation

Because the board has now entered into an administrative services contract with DPL, we recommend the Board gain an understanding of DPL's process for ensuring the appropriate classification of the Board's receipts in eMARS.

**KENTUCKY BOARD OF CHIROPRACTIC EXAMINERS
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2019
(Continued)**

KBCE-01: The Kentucky Board of Chiropractic Examiners Did Not Maintain Adequate Supporting Documentation To Verify Receipt Classifications (Continued)

Management's Response and Corrective Action Plan

We agree with the findings and by moving to the DPL, we believe the recommendations by the auditors have been met. My further recommendations are the KBCE put in their regulations that an audit should be performed at least every 2 years, this could be a 1 year audit or a 2 year audit. The board members should plan to be more involved with the financials. There should be no other financial institutions holding the KBCE money other than the commonwealth's treasury account. A policy should also be developed requiring board members and executive management to disclose any conflicts of interests. The disclosure form should be completed by a specified date and returned to the board.