Auditor of Public Accounts
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Harmon Releases Audit of Boyd County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Boyd County Fiscal Court for the fiscal year ended June 30, 2020. State law requires annual audits of county fiscal courts.

Auditing standards require the auditor's letter to communicate whether the financial statement presents fairly the receipts, disbursements, and changes in fund balances of the Boyd County Fiscal Court in accordance with accounting principles generally accepted in the United States of America. The fiscal court's financial statement did not follow this format. However, the fiscal court's financial statement is fairly presented in conformity with the regulatory basis of accounting, which is an acceptable reporting methodology. This reporting methodology is followed for 115 of 120 fiscal court audits in Kentucky.

As part of the audit process, the auditor must comment on noncompliance with laws, regulations, contracts, and grants. The auditor must also comment on material weaknesses involving internal control over financial operations and reporting.

The audit contains the following comments:

The fiscal court's fourth quarter financial report was materially misstated: This is a repeat finding and was included in the prior year audit report as Finding 2019-001. The fiscal court's fourth quarter financial report, which serves as the county's year-end financial statement, was materially misstated. Adjustments and reclassifications were necessary to record and classify transactions properly. In order for the county's financial statement to accurately reflect receipts, 55 adjustments and reclassifications net totaling $2,694,946 were necessary. Likewise, 36 adjustments and reclassifications net totaling $2,333,485 were necessary for disbursements to be recorded and classified correctly on the financial statement.

According to the treasurer, she was not aware the way she recorded certain transactions was incorrect. The county did not have adequate internal controls, oversight, and review procedures in place to ensure financial activity was accurately recorded and reported in accordance with the uniform system of accounts as required.

As a result, numerous errors and misstatements occurred and were undetected, resulting in the financial statement being materially misstated. Inaccurate financial reporting is problematic because the commissioners and county judge/executive rely on financial data presented to them to be complete and accurate in order to make prudent financial decisions on behalf of the county and taxpayers. Furthermore, external organizations may use and rely on financial information reported by the county so accurate financial reporting should be a priority.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* requires officials to submit quarterly reports to the Department for Local Government (DLG) by the 20th day following the close of each quarter. The uniform system of accounts has specific requirements on how to record various types of transactions for different funds and fund types. The most basic requirement of the uniform system of accounts is that all transactions are recorded and classified correctly.

We recommend the county treasurer thoroughly examine each account line item on the quarterly report to ensure items were posted properly. Each adjustment made by auditors has been presented to and reviewed with the county treasurer. We recommend the county treasurer use these adjustments as guidance when preparing future financial statements. In addition, we recommend the fiscal court establish adequate internal controls, oversight, and review procedures to ensure that all financial data is completely and accurately recorded and reported.

County Judge/Executive's Response: This was addressed and corrected during the FY 20 audit. County has hired financial help and promoted an employee as finance officer to help treasurer with checks and balances.

The fourth quarter liabilities journal was misstated: This is a repeat finding and was included in the prior year report as Finding 2019-004. The liabilities journal did not reconcile to the fiscal court's debt schedules, materially misstating debt obligations.

The principal balance misstatements over $10,000 were as follows:

- General Obligation Bonds, Series 2010, were overstated $159,920.
- General Obligation Bonds, Series 2011, were overstated $1,222,700.
- General Obligation Bonds, Series 2011B, were not included on the fourth quarter report, resulting in an understatement of $1,330,000.
- General Obligation Bonds, Series 2012, were overstated $680,000.
- General Obligation Bonds, Series 2014, were understated $68,208.
- General Obligation Bonds, Series 2015, were overstated $210,000.
- First Mortgage Revenue Bonds, Series 2016, were not included on the fourth quarter report, resulting in an understatement of $9,955,000.

- Direct borrowing for the Riverport Authority was not included on the fourth quarter report, resulting in an understatement of $340,000.
- Direct borrowing for the jail roof was overstated $91,470.
- Direct borrowing for trucks was not included on the fourth quarter report, resulting in an understatement of $291,844.
- Direct borrowing for the backhoe was not included on the fourth quarter report, resulting in an understatement of $71,585.
- Direct borrowing for the 2020 truck was not included on the fourth quarter report, resulting in an understatement of $133,180.
- Direct borrowing for the line of credit was not included on the fourth quarter report, resulting in an understatement of $1,472,233.
- Direct borrowing for the 2016 truck was not included on the fourth quarter report, resulting in an understatement of $19,744.
- Direct borrowing for the lawnmower was included on the quarterly, but was paid off, and did not have a principal balance as of June 30, 2020, overstating principal debt 22,466.

The fiscal court failed to have controls in place to ensure the fourth quarter report liabilities journal was being reconciled to the debt amortization schedules. As a result, liabilities information is not accurately presented to fiscal court, Department for Local Government (DLG), and any other individuals interested in the fiscal court's financial condition.

The DLG, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires the debt section of the fourth quarter financial report to be utilized for reporting all current long-term debt, including public corporation bonds, general obligation bonds, government leasing act issues and bond anticipation notes. The liabilities information reported needs to be accurate. We recommend the fiscal court ensure all debt payments are accounted for, and reported accurately on the liabilities journal.

County Judge/Executive's Response: This was addressed and is in the process of being corrected.

Budget amounts are misstated on the quarterly report: This is similar to a repeat finding and was included in the prior year report as Finding 2019-003. Initially, the treasurer used the incorrect original budget amounts on her quarterly report approved by the Department for Local Government (DLG). Subsequently, one budget amendment was approved in the fiscal court minutes, but not by DLG. Budget amendments have to be approved by DLG in order for the fiscal court to be able to include them on their quarterly financial reports. The fiscal court cannot be given credit for the budget amendment not approved by DLG. Therefore, budget amounts were misstated on the quarterly report for the following funds:

	Receipts	Total Approved Budget	Budget Per Quarterly Report	Variance
01	General Fund	$ 11,691,364.06	11,827,468.06	(136,104.00)
76	Special Projects Fund	82,757.00	7,757.00	75,000.00
77	New Sewer Fund	551,967.43	-	551,967.43
88	Emergency Fund	600,300.00	-	600,300.00
	Totals	12,926,388.49	11,835,225.06	1,091,163.43

	Expenditures	Total Available Budget	Budget Per Quarterly Report	Variance
01	General Fund	$ 11,631,364.06	11,827,468.06	(196,104.00)
04	LGEA Fund	382,502.00	322,502.00	60,000.00
80	Senior Center	10,356.00	-	10,356.00
	Totals	12,024,222.06	12,149,970.06	(125,748.00)

Due to not having adequate control procedures in place, such as lack of review or monitoring, the county treasurer made a mistake that went undetected. According to the treasurer, she does not know why budget amendment was not submitted to DLG for approval. As a result, the total budgeted receipts on the quarterly report were understated by $1,091,163 and the disbursements were overstated by $125,748. Adjustments were required to post the approved budget amounts to the funds. Further, not getting the budget amendment approved by DLG resulted in the fiscal court exceeding their approved budget appropriations as noted in 2020-004. The DLG, under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe minimum requirements for handling public funds. According to the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires the original budget and amendments to agree to the quarterly reports. We recommend the approved budget amendments be accurately included on the quarterly reports so that the fiscal court and regulatory agencies such as DLG can accurately monitor the county's budget. Further, we recommend the fiscal court make sure all amendments are approved by DLG, and that approved budget amounts are accurately reflected on the quarterly report.

County Judge/Executive's Response: Treasurer will follow up with DLG to ensure DLG is receiving all budget amendments.

The fiscal court's disbursements exceeded approved budget appropriations by $1,117,629: Disbursements exceeded approved budget appropriations for funds as follows:

General	$156,700
Jail	369,919
LGEA	455,555
Economic Development	47,910
Sewer	500
Emergency	62,930

Senior Center	9,520
FEMA	14,595

This means that the fiscal court expended more than what they budgeted. As mentioned in Finding 2020-003, this was primarily the result of a budget amendment not approved by the Department for Local Government (DLG). If the budget amendment that was not approved by DLG could have been included, the disbursements would not have exceeded appropriations as much. Due to not having adequate control procedures in place such as lack of review or monitoring, the county treasurer made a mistake that went undetected.

According to the treasurer, she does not know why the budget amendment was not submitted to DLG for approval. As a result, disbursements exceeded budgeted appropriations by $1,117,629.

KRS 68.300 states, "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void. No member of the fiscal court shall vote for any such illegal appropriation or claim."

We recommend the fiscal court and the county treasurer monitor the budget more closely and amend the county's budget or transfer necessary appropriations in order to prevent the county from exceeding the budget. Further, we recommend the fiscal court make sure all amendments are approved by DLG, and that approved budget amounts are accurately reflected on the quarterly report.

County Judge/Executive's Response: Treasurer will follow up with DLG to ensure DLG is receiving all budget amendments.

The fiscal court did not establish adequate controls over the capital projects fund: This is a repeat finding and was included in the prior year audit report as Finding 2019-002. The fiscal court did not maintain adequate controls over the capital projects fund. No financial statement was prepared and no information regarding the activity in the fund was submitted to the fiscal court for review. This fund is for reporting of debt financing for the fiscal court and was not included on the quarterly report, per Department for Local Government (DLG) guidelines. The fiscal court did not have controls in place to ensure preparation of a financial statement for the capital projects fund. By not preparing an annual financial statement, the fiscal court is not aware of the transactions that are occurring relating to the receipts and disbursements of the unbudgeted fund. This could result in undetected fraud, errors, or misstatements. The fiscal court is financially accountable and legally obligated for the debt of the capital projects fund. The fiscal court should establish adequate controls over the fund so that proper records are maintained and complete and accurate information is available for review. We recommend the county treasurer prepare a financial statement for the capital projects fund.

County Judge/Executive's Response: The capital projects fund has been addressed and treasurer will ensure a financial statement is prepared annually.

The fiscal court lacks adequate segregation of duties over receipts and reconciliations: This is a repeat finding and was included in the prior year audit report as Finding 2019-005. During

Fiscal Year 2020, the county treasurer prepared and deposited receipts, posted receipts to the accounting system, prepared monthly reports for fiscal court and quarterly reports for the Department for Local Government (DLG), made cash transfers between funds and bank accounts, and performed bank reconciliations for all bank accounts. The fiscal court does not have procedures in place to adequately segregate these duties. As a result, too much control by one individual increases the risk of undetected misappropriation of assets and inaccurate financial reporting. In fact, we noted numerous posting errors related to revenues. Had adequate internal controls or review procedures been implemented, these errors could have been detected and corrected. Reports prepared for DLG and for the fiscal court were not complete and accurate due to the posting errors, which affects the ability of the fiscal court to make informed financial decisions. A sufficient internal control structure requires adequate segregation of duties. Without proper segregation, the fiscal court cannot ensure all receipts are deposited and all bank activity is appropriately documented in the accounting system. Good internal controls dictate that the same employee should not be handling, recording and reconciling cash receipts.

We recommend the fiscal court segregate incompatible duties or implement strong compensating controls to mitigate the risk identified above. The fiscal court should determine which duties should be performed by the judge/executive, his designee or the treasurer that will address these weaknesses.

County Judge/Executive's Response: The county has hired extra help and promoted an employee to finance officer to help with segregation of duties.

The senior center fund had a negative reconciled fund balance of $116: The senior center fund had a negative reconciled fund balance of ($116) as of June 30, 2020. According to the treasurer, she did not transfer sufficient funds from the general fund to the senior center fund timely to cover expenses. Further, the fiscal court did not have controls in place to ensure adequate funds were in the account prior to authorizing the invoice to be paid. As a result, the senior center fund expended more money than it had in the fund.

The Department for Local Government (DLG), under the authority of KRS 68.210, gives the state local finance officer the authority to prescribe a uniform system of accounts. As outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, the uniform system of accounts requires purchase orders not be issued unless adequate funds are available to cover the expenditure. Also, under duties of county treasurer, the county treasurer should only countersign checks if there is sufficient fund balance and adequate cash in the bank to cover the check. Furthermore, good internal controls dictate monthly bank reconciliations are performed that provide an accurate and complete record of the county's fund balance.

We recommend the fiscal court monitor fund balances to ensure sufficient funds are available prior to authorizing and approving payments. Furthermore, if this fund had been reconciled timely, it would have been known that it was short funds.

County Judge/Executive's Response: Treasurer will ensure deposits are made in a timely manner to offset any negative balances.

The fiscal court does not have adequate internal controls, review, and oversight procedures for the payroll revolving account: This is similar to a repeat finding and was included in the prior year audit report as Finding 2019-007. The payroll revolving account did not reconcile to zero as of June 30, 2020, and the reconciled balance could not be readily explained. According to the information available, the bank account balance as of June 30, 2019, was $26,023. The fiscal court had receivables of $252,464, outstanding checks of $1,105, and outstanding liabilities of $317,084, leaving an unexplained reconciled balance of negative $39,702 for Fiscal Year 2020. The general fund has been reduced by $39,702 to account for the negative payroll account reconciled balance. In addition, bank reconciliations were not being prepared timely on the payroll revolving account. The fiscal court did not have controls in place to ensure that the payroll revolving account was reconciled timely, and accounted for properly. Neglecting to timely reconcile the payroll revolving account could cause the fiscal court to have insufficient funds and be unable to meet payroll obligations. Further, it could cause the fiscal court's liabilities to not be paid properly or to not be paid timely. Finally, without timely review of the transactions in the payroll revolving account (which is achieved during the reconciliation process), the risk of undetected errors or misstatements increases.

Per KRS 68.210, the state local finance officer has the authority to require a uniform system of accounts. The *County Budget Preparation and State Local Finance Officer Policy Manual* includes monthly bank reconciliations as a minimum requirement for all county officials. Since the payroll account is a revolving account, only funds necessary to pay employees and government agencies should be transferred from other county funds. Therefore, each month the account should reconcile to a zero balance.

Good internal controls dictate that revolving accounts be reconciled to a zero balance. In addition, monthly bank reconciliations should be prepared and reviewed by someone independent of the reconciliation process.

We recommend the fiscal court properly reconcile the payroll revolving account to a zero balance monthly. Additionally, we recommend bank reconciliations be prepared monthly and that the bank reconciliations be reviewed by an employee independent of the reconciliation process. These reviews should be dated and initialed by both the preparer and the reviewer to document evidence of oversight, accuracy, and completeness.

County Judge/Executive's Response: This has been reviewed and corrected. The county now has adequate internal procedures and controls in place for our payroll account.

The jail lacks adequate segregation of duties over jail commissary transactions: This is a repeat finding and was included in the prior year audit report as Finding 2019-008. The jail lacks adequate segregation of duties over jail commissary transactions. A control deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. The bookkeeper for the jail commissary prepares deposits, prepares daily checkout sheets, and post to the receipts ledger. In addition, the bookkeeper prepares monthly collection and disbursement reports, posts to the disbursements ledger, and prepares monthly bank reconciliations. The Jailer has been informed of this issue and has failed segregate duties or to implement and document compensating controls sufficient to offset the weakness noted. Inadequate segregation of duties allows one person to have a significant role in processing and recording receipts and disbursements, which increases the risk that misappropriation of assets and inaccurate financial reporting will occur and be undetected. A strong internal control system requires the duties of receiving, recording, disbursing, and reporting be segregated in order to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Although the jailer has implemented some compensating controls, such as dual signatures on checks and recounting the daily deposits, they do not eliminate the risk associated with inadequate segregation of duties. We recommend the Jailer either segregate duties adequately or implement and document these compensating controls. If these duties cannot be segregated, the jailer should implement additional compensating controls to help offset this weakness:

- Recount the daily deposit and verify that it agrees to the daily checkout sheet.
- Agree daily checkout sheet to the receipts ledger and deposit slip.
- Review the monthly reports and agree them to the receipts ledger and disbursements ledger.
- Review the monthly bank reconciliation and trace transactions to source documents.

The jailer should initial these documents as proof of his review.

Jailer's Response: The following changes were implemented days after I was made aware of the need for correction in Detention Center's previous audit. Jail Commissary Transactions have been segregated. Two deputies are receiving and overseeing commissary transactions along with the bookkeeper.

The schedule of expenditures of federal awards (SEFA) was materially misstated: The fiscal court's schedule of expenditures of federal awards (SEFA) was materially misstated. While the following known misstatements were made on the fiscal court's SEFA, the fiscal court failed to adequately track expenditures by grant and to ensure the SEFA was prepared by someone knowledgeable of federal program requirements. The treasurer's original SEFA total was $1,067,327. The Coronavirus Relief Funds (CFR) were overstated by $208,484 and an ambulance grant in the amount of $10,000 was included that is not federal. Furthermore, there were three federal grants not included on the original SEFA: Public Assistance Grants in the amount of $1,033,104, Emergency Management Performance Grant in the amount of $105,823, and Flood Mitigation Assistance in the amount of $231,267. Additionally, the fiscal court failed to submit the SEFA to the Department for Local Government (DLG) and the Auditor of Public Accounts. This is a material weakness in internal controls over the SEFA's preparation and reporting.

The fiscal court was aware of this requirement but failed to fulfill the requirement to prepare and submit the SEFA to DLG. The misstatement is the result of a lack of knowledge on the correct way to track and report federal expenditures. The county treasurer prepared the original SEFA based on grant awards received rather than grant funds expended. The fiscal court failed to implement internal control procedures to ensure the SEFA was accurate and complete. Due to the failure of the county to ensure the SEFA was prepared by someone knowledgeable of federal program requirements and their failure to prepare a complete and accurate SEFA, we are unable to obtain sufficient and appropriate evidence to express an opinion on the SEFA.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual,* which on page 54 states that a Schedule of Expenditures of Federal Awards is required to be maintained under the uniform system of accounts.

Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). §200.502 Basis for determining Federal awards expended. (a) Determining Federal awards expended. The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force. (b) Loan and loan guarantees (loans). Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines must be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section: (1) Value of new loans made or received during the audit period; plus (2) Beginning of the audit period balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus (3) Any interest subsidy, cash, or administrative cost allowance received.

2 CFR §200.510 Financial Statements (b) Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must: (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency.

(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included. (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster. (4) Include the total amount provided to subrecipients from each Federal program (5) For loan or loan guarantee programs described in §200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances

outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule. (6) Include notes that describe that significant accounting policies used in preparing the schedule.

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

County Judge/Executive's Response: The county worked diligently to make the deadline for reporting our federal funds. There were some errors that needed addressed, but the county was not able to complete the corrections in a timely manner due to the large amount of paperwork involved with our SEFA.

The fiscal court lacks adequate internal controls over federal programs:

Federal Program: CFDA #21.019 Coronavirus Relief Funds
Federal Agency: U.S. Department of Treasury
Pass Through Agency: Kentucky Department for Local Government
Compliance Area: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Period of Performance
Questioned Costs: None
Modified Opinion: Adverse

Federal Program: CFDA #97.036, Public Assistance Grant
Federal Agency: U.S. Department of Homeland Security
Pass Through Agency: Kentucky Emergency Management
Compliance Area: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance, Reporting, and Special Tests and Provisions
Questioned Costs: None
Modified Opinion: Disclaimer

The fiscal court did not implement adequate internal controls over federal programs. There are no procedures or review processes in place to ensure that compliance requirements are met for all federal programs. The fiscal court does not define, maintain, or periodically evaluate the skills and expertise needed among its members to enable them to ask probing questions of employees managing federal programs and to take commensurate action.

Further, the fiscal court does not maintain an organizational structure that facilitates effective reporting and other communications about internal control over compliance among various functions and positions of management. The fiscal court does not have job descriptions for employees managing federal programs nor have they documented significant processes that explain the flow of transactions, controls to address key risk areas, and related reporting responsibilities. No processes are in place to evaluate the performance of individuals and teams against the entity's expected standards of conduct. The fiscal court also does not offer the training needed to attract, develop, and retain sufficient and competent personnel.

The fiscal court believed that they had appropriate procedures in place and did not realize that they were not sufficient. The fiscal court budgets for training in every department, however, training is not mandatory and the fiscal court does not ensure that training is sufficient for relevant employees. The fiscal court also believed that they were using job descriptions for employees outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, however, the positions of employees managing the federal programs are not outlined in the budget manual. Failure to implement internal controls over federal programs creates a greater risk that compliance requirements will not be met and increases the risk of undetected errors or misappropriation due to fraud. Due to the lack of internal controls, there were several instances of non-compliance including: the fiscal court's schedule of expenditures of federal awards was materially misstated, ineligible expenses were submitted for reimbursement, and auditors were unable to obtain sufficient audit evidence to substantiate amounts. Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)

2 CFR §200.303 Internal Controls
The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
(b) Comply with Federal Statues, regulations, and the terms and conditions of the Federal awards.
(c) Evaluate and monitor non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.
(d) Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
(e) Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designated as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality.

We recommend the fiscal court implement procedures to ensure that federal programs are meeting all compliance requirements. There should be review procedures in place to ensure that all federal expenditures are allowable and fall within the correct period of performance for each federal program. The fiscal court should have job descriptions for all employees and document significant processes that explain the flow of transactions, controls to address key risk areas, and related reporting responsibilities. The fiscal court should also ensure that all employees receive sufficient training in relevant areas to ensure that they attract, develop, and retain sufficient and competent personnel.

County Judge/Executive's Response: The county has reviewed our federal programs guidelines and we are trying to locate training on this also. The county has placed an employee with staff to handle the paperwork concerning our federal funds.

The fiscal court submitted ineligible expenses for reimbursement from the coronavirus relief fund:

Federal Program: CFDA 21.019 Coronavirus Relief Fund
Award Number and Year: 2100000016, Reimbursement #1
Name of Federal Agency and Pass-Through Agency: U.S. Department of Treasury and Kentucky Department for Local Government (DLG)
Compliance Requirements: Activities Allowed/ Unallowed, Allowable Costs and Cost Principles, and Period of Performance
Type of Finding: Material Weakness, Noncompliance
Amount of Questioned Costs: $51,848
Modified Opinion: Adverse

The Boyd County Fiscal Court submitted payroll expenses that did not qualify for reimbursement from the Coronavirus Relief Fund (CRF) administered by the Commonwealth of Kentucky's Department for Local Government (DLG). During testing, the following questioned costs were noted:

- The fiscal court submitted payroll expenses incurred prior to March 1, 2020 for reimbursement from the CRF. The ineligible expense was for the sheriff's department payroll that was paid on March 13, 2020. The payroll submission causing questioned costs ran from February 24, 2020 through March 10, 2020, which included six days outside the CRF's prescribed period of performance. The amount of the county's sheriff's department gross payroll for the days in February being questioned is $27,707.
- There were two instances in which an employee left employment through the county and received a vacation and compensatory balance payout. These payouts, totaling $9,559, were submitted for reimbursement from the CRF.
- There were eleven instances, totaling $7,250, in which the fiscal court received reimbursement from the CRF for salaries that were already reimbursed through other federal grants.
- The fiscal court submitted school resource officer salaries for reimbursement from the CRF in which a portion, totaling $7,332, was already reimbursed from a school district.

The total amount of questioned costs submitted for reimbursement from the Coronavirus Relief Fund is $51,848.

<u>February 2020 (Prior to period of performance):</u>
Questioned costs were computed based on the cost of the county's sheriff department's payroll for the period of February 24, 2020 through February 29, 2020, which we were included in the March 13, 2020 payroll submission. The amount of the county sheriff department's gross payroll for the days in February being questioned is $27,707.
<u>Vacation and Comp time payout:</u>

The test of timesheets noted that for two employees there was a calculation for vacation time and compensatory time payout included in their total payroll. The reimbursement request submitted for CRF was reviewed to see if these amounts were included in the request and they were. The vacation time and compensatory time is shown separately on the employee's pay stubs, which the amount of total questioned costs. Total vacation and compensatory time payout for the two employees is $9,559.

<u>Federal Grant – double reimbursement:</u>

Questioned costs were identified during the test of timesheets when federal overtime recorded for some sheriff's deputies was noted. When comparing federal overtime reimbursement requests for High Intensity Drug Trafficking Areas (HIDTA) and from federal Highway Safety grant, several instances were noted in which the fiscal court was reimbursed for salaries that were also reimbursed from these grants, totaling $7,250.

<u>School Resource Officer:</u>

Auditor is familiar with school resource officer (SRO) procedures, therefore, knew that the school districts pay for half of the school resource officer's salary. Upon review of CRF reimbursement request and SRO's pay stubs, the entire pay of this officer was reimbursed from CRF. Auditor then contacted the sheriff's office to get documentation of the school district reimbursing the sheriff's office for the SRO's salary. The school district reimbursed a flat amount ($11,000) for January 2020 through June 2020 (six months). The flat amount ($11,000) was divided by six and determined that the school district reimbursed $1,833 for each month, including 4 months during the grant period of performance. Auditor multiplied $1,833 by four to determine a total questioned cost of $7,332.

The fiscal court did not have controls in place to ensure that staff knew the requirements and did not monitor or review to make sure requirements were followed. According to the human resource director, who completed the request for reimbursement from Coronavirus Relief Funds, she was unaware that the sheriff's office received reimbursement from other agencies and/or grants.

As a result, the Boyd County Fiscal Court submitted payroll expenses that did not qualify for reimbursement from the CRF administered by the DLG. This resulted in $51,848 of questioned costs.

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") established the Coronavirus Relief Fund (the "Fund") and appropriated $150 billion for payments by Treasury to States, tribal governments, and certain local governments. The CARES Act provides that payments from the Fund may only be used to cover costs that—

1. are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID-19);

2. were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and

3. were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021

Initial guidance released on April 22, 2020, provided that the cost of an expenditure is incurred when the recipient has expended funds to cover the cost. Upon further consideration and informed by an understanding of State, local, and tribal government practices, Treasury is clarifying that for a cost to be considered to have been incurred, performance or delivery must occur during the covered period but payment of funds need not be made during that time (though it is generally expected that this will take place within 90 days of a cost being incurred)." Additionally, CFR 200.303 states: "The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

We recommend the Boyd County Fiscal Court contact DLG for guidance on how to resolve these issues. We also recommend the Boyd County Fiscal Court strengthen controls over federal awards by implementing a review process to catch and resolve these matters going forward.

County Judge/Executive's Response: The county has corrected this and resubmitted our correct amount.

Schedule of expenditures of federal awards did not provide sufficient and appropriate evidence supporting the compliance with CFDA 97.036 Public Assistance Grant:

Federal Program: CFDA #97.036, Public Assistance Grant
Federal Agency: U.S. Department of Homeland Security
Pass Through Agency: Kentucky Emergency Management
Compliance Area: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Performance, Reporting, and Special Tests and Provisions
Questioned Costs: None
Modified Opinion: Disclaimer

We were unable to obtain sufficient and appropriate audit evidence supporting the compliance of Boyd County Fiscal Court with CFDA 97.036 Public Assistance Grant. The county provided auditors with an updated schedule of expenditures of federal awards (SEFA) that included $1,033,104 in CFDA 97.036 Public Assistance Grant funds. However, auditors were unable to substantiate the source of this number or trace it to the county's underlying financial records. Based on information obtained, there are 22 instances of known expenses that were omitted from the SEFA totaling $313,206. Further, there were eight expenditures included on the SEFA totaling $17,988 that were included on the SEFA but were actually outside the fiscal year and should not have been included.

The fiscal court was aware of this requirement but failed to fulfill the requirement to prepare and submit the SEFA to DLG. The misstatement is the result of a lack of knowledge on the correct way to track and report federal expenditures. The county treasurer prepared the original SEFA based on grant awards received rather than grant funds expended. The fiscal court failed to implement internal control procedures to ensure the SEFA was accurate and complete. As a result, we were unable to determine whether Boyd County Fiscal Court complied with those requirements applicable to that program.

KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. Pursuant to KRS 68.210, the state local finance officer has prescribed minimum accounting and reporting standards in DLG's *County Budget Preparation and State Local Finance Officer Policy Manual,* which on page 54 states that a Schedule of Expenditures of Federal Awards is required to be maintained under the uniform system of accounts. Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)

2 CFR §200.502 Basis for determining Federal awards expended.

(a) Determining Federal awards expended. The determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as: expenditure/expense transactions associated with awards including grants, cost-reimbursement contracts under the FAR, compacts with Indian Tribes, cooperative agreements, and direct appropriations; the disbursement of funds to subrecipients; the use of loan proceeds under loan and loan guarantee programs; the receipt of property; the receipt of surplus property; the receipt or use of program income; the distribution or use of food commodities; the disbursement of amounts entitling the non-Federal entity to an interest subsidy; and the period when insurance is in force. (b) Loan and loan guarantees (loans). Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines must be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section:

(1) Value of new loans made or received during the audit period; plus
(2) Beginning of the audit period balance of loans from previous years for which the Federal Government imposes continuing compliance requirements; plus
(3) Any interest subsidy, cash, or administrative cost allowance received.

2 CFR §200.510 Financial Statements
(b) Schedule of expenditures of Federal awards. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with §200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:
(1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency.
(2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.

(3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
(4) Include the total amount provided to subrecipients from each Federal program
(5) For loan or loan guarantee programs described in §200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
(6) Include notes that describe that significant accounting policies used in preparing the schedule…

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

County Judge/Executive's Response: Our records were being kept offsite by federal project dates and not fiscal year dates. Due to several employees handling the paperwork, we inadvertently had invoices included that were in the wrong fiscal year that the treasurer reported on the SEFA. This is now being monitored closely.

The audit report can be found on the auditor's website.

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