



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Bell County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Bell County Fiscal Court for the fiscal year ended June 30, 2021. 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 Bell 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 116 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 Bell County debt was not reported correctly on the fourth quarter financial report liabilities worksheet: The outstanding principal balance was understated by \$414,625 and the outstanding interest balance was understated by \$22,531 on the county's fourth quarter financial report in the liabilities section that is required to be submitted to the state local finance officer upon submission of the fiscal court's proposed budget and quarterly financial report.

The treasurer mistakenly included additional payments not made during the fiscal year and did not account for all interest payments due; therefore, it resulted in incorrect balances being reported in the fourth quarter financial report in the liabilities section. By not correctly reporting the liabilities of the fiscal court, the state local finance officer did not see the accurate financial position of the

fiscal court. The liabilities were understated for principal and interest by \$414,625 and \$22,531, respectfully.

Since the Department for Local Government (DLG) and the fiscal court rely on the quarterly report to make decisions involving new debt and other financial decisions, it is important the quarterly report be complete and accurate. The quarterly report is a cumulative report and is prepared on a regulatory basis by the county judge/executive and the county treasurer pursuant to KRS 68.210. KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the *County Budget Preparation and State Local Finance Officer Policy Manual*, requires the budget 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 fiscal court should have controls in place to ensure that all payments of liabilities are accounted for on the fourth quarter financial report liabilities worksheet.

We recommend the fiscal court, when submitting its proposed budget and quarterly reports to the state local finance officer, accurately report and include all their financial obligations within the liabilities section, and ensure all quarterly reports are reviewed and verified as correct before submitting to DLG.

County Judge/Executive's Response: The official did not provide a response.

The Bell County Jail commissary lacks adequate segregation of duties over receipts, disbursements, and the reconciliation process: This is a repeat finding and was included in the prior year audit report as Finding 2020-004. The jail commissary bookkeeper's duties include collecting cash for inmate accounts, posting receipts, preparing, and posting disbursements, and completing the bank reconciliation. When one employee is responsible for the receipt, disbursement, and reconciliation process, the risk of misappropriation of assets, errors, and inaccurate financial reporting increases. According to the jail, the limited number of jail staff in the office prevents a proper segregation of duties. This could result in undetected misappropriation of assets and incorrect reporting.

Effective internal controls require proper segregation of duties over accounting functions, such as making deposits, preparing disbursements, and reconciling the bank account. Segregation of duties, or the implementation of compensating controls, is essential for providing protection to employees in the normal course of performing their daily responsibilities.

We recommend the Bell County Jailer segregate duties over receipts, disbursement, and the bank reconciliation process. If segregation of duties is not possible, then the Bell County Jailer should implement compensating controls by monitoring the financial activities of the jail commissary and documenting the review.

County Judge/Executive's Response: The official did not provide a response.

Jailer's Response: The official did not provide a response.

The Bell County Jailer did not submit an annual financial report for the commissary fund:

This is a repeat finding and was included in the prior year audit report as Finding 2020-002. The Bell County Jailer is required to present a financial statement for commissary activity to the fiscal court at the end of each fiscal year. The jailer did not present a financial statement for Fiscal Year 2021, as required by the Department for Local Government's (DLG) *Budget Preparation and State Local Finance Officer Policy Manual*. The jailer did not have sufficient internal controls over the financial reporting process that would ensure that the financial statement was presented to the fiscal court or treasurer. The county treasurer and fiscal court were not made aware of the financial activity of the jail commissary fund.

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 the DLG's *County Budget Preparation and State Local Finance Officer Policy Manual* which are to be used by jailers for jail commissary funds maintained pursuant to KRS 441.135. KRS 441.135(2) states, in part, "[t]he jailer shall keep books of accounts of all receipts and disbursements from the canteen and shall annually report to the county treasurer on the canteen account."

We recommend the jailer submit an accurate annual commissary report to the county treasurer at year-end that includes all receipts and disbursements and reconciles to the receipts and disbursements ledgers.

County Judge/Executive's Response: The official did not provide a response.

Jailer's Response: The official did not provide a response.

The Bell County Fiscal Court failed to implement internal controls to ensure costs submitted for reimbursement were for eligible expenses not already reimbursed by other entities:

Federal Program: Assistance Listing Number 21.019 – Coronavirus Relief Funds

Award Number and Year: 2021

Name of Federal Agency and Pass-Through Agency: U.S. Department of Treasury and Kentucky Department for Local Government – Office of Grants

Compliance Requirements: Activities Allowed or Unallowed

Type of Finding: Significant Deficiency

Amount of Questioned Costs: \$12,333

Opinion Modification: No

The Coronavirus Relief Fund (CRF) was established to cover costs that are necessary expenditures incurred due to the public health emergency with respect to Coronavirus Disease 2019 (COVID-19). The \$150 billion fund is to be used to make payments for specified uses to states, tribal governments, and certain local governments for the program period March 1, 2020 through December 31, 2021. The Compliance Supplement 2020 addendum for Department of the Treasury

for CRF for States, Tribal Governments, and Certain Eligible Local Governments states “recipients may not use payments from the Fund to cover expenditures for which they will receive reimbursement from other sources.”. During Fiscal Year 2021, the Bell County Fiscal Court received reimbursements from the CRF for the payroll expenditures that had already been reimbursed by other state and federal grants or other governmental entities.

The Bell County Fiscal Court failed to establish effective internal controls over compliance requirements to ensure expenditures submitted for reimbursement from the CRF were not already reimbursed from other sources. Our total sample included 60 disbursements from a universe of 505 transactions included in the reimbursement request. The audit sample was selected using a non-statistical method. We then reviewed reimbursements received from other state and federal grants or other governmental entities for payroll expenditures that had also been reimbursed by CRF. The issue noted appears to be isolated to the CRF grant reimbursements.

Total known questioned costs are \$12,333. Questioned costs were computed by comparing reimbursements received from other state and federal grants or other governmental entities for payroll expenditures to payroll expenditures submitted for reimbursement to Coronavirus Relief Fund (CRF). During testing, we found the following expenditures had already been reimbursed:

- \$12,333 gross wages were reimbursed for law enforcement officers from the Kentucky Law Enforcement Foundation Program Fund (KLEFPF).

The Bell County Fiscal Court failed to establish effective internal controls over compliance requirements to ensure expenditures submitted for reimbursement from the CRF were not already reimbursed from other sources. As a result, the Bell County Fiscal Court submitted payroll expenses that did not qualify for reimbursement from the CRF administered by the Commonwealth of Kentucky’s Department for Local Government (DLG), which, resulted in \$12,333 of questioned costs. In addition, the fiscal court could be required to repay the questioned costs back to the granting agency.

2 CFR § 200.303 requires a non-federal entity to “[e]stablish 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.” In addition, 2 CFR § 200.1 states in part:

“Improper payment means:

- (1) Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.
 - (i) Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient, or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law).

We recommend the fiscal court strengthen internal controls over federal awards to ensure expenditures have not been reimbursed by other entities and are eligible expenditures. We also recommend that the fiscal court contact DLG to determine if questioned costs should be repaid or if they can resubmit request with eligible expenditures.

County Judge/Executive's Response: The official did not provide a response.

The audit report can be found on the [auditor's website](#).

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