



Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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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, 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 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 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 findings:

The fiscal court's fourth quarter financial report was materially misstated: This is a repeat finding and was included in the prior year report as Finding 2020-001. 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 control, 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: The county has measures in place now with our new accounting software to ensure this does not happen again.

The fourth quarter liabilities journal was misstated: This is a repeat finding and was included in the prior year report as Finding 2020-002. 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 2011B, were not included on the liabilities schedule, resulting in an understatement of \$1,230,000.
- Direct placement (First Mortgage revenue Bonds, Series 2016) was overstated \$2,210,000.
- Direct borrowing for the jail roof was overstated \$91,470.
- Direct borrowing for the trucks/sheriff's vehicles was included on the liabilities schedule; however, it was refinanced, resulting in an overstatement of \$291,844.
- Direct borrowing for the backhoe was not included on the liabilities schedule, resulting in an understatement of \$58,321.

- Direct borrowing for the freightliner was not included on the liabilities schedule, resulting in an understatement of \$116,044.
- Direct borrowing for the line of credit was not included on the liabilities schedule, resulting in an overstatement of \$2,789.
- Direct borrowing for the 2016 truck was not included on the liabilities schedule, resulting in an understatement of \$14,440.
- Direct borrowing for the sheriff's vehicles was included on the liabilities schedule, but was paid off, and did not have a principal balance as of June 30, 2021, overstating principal debt \$99,873.
- Direct borrowing for the tractors was included on the liabilities schedule; however, it was made after year-end resulting in an overstatement of \$316,545.
- Direct borrowing for the trucks was not included on the liabilities schedule, resulting in an understatement of \$595,666.

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.

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 that fiscal court ensure all debt payments are accounted for and reported accurately on the liabilities journal.

County Judge/Executive's Response: Treasurer will ensure all debt in the county name will be included on liabilities journal.

The schedule of expenditures of federal awards (SEFA) was materially misstated: This is a repeat finding and was included in the prior year audit report as Finding 2020-010. 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 amended SEFA total was \$3,831,053. The Coronavirus Relief Funds were overstated by \$869,984.

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 the Department for Local Government's (DLG) *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, provides in part: “(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 states in part: “(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 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... (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 Assistance Listings Number or other identifying number when the Assistance Listings 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 (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: County has unfortunately been the center of several FEMA disasters that have made our county one of the ones to have to apply for large amounts of federal monies. Due to the sudden and overwhelming task of getting all the paperwork correct, we were hit with several disasters in a row. The treasurer has reached out for help on how to maintain records but was told there are no training programs on handling FEMA. The county has worked to get measures in place to handle our FEMA contracts. We hired a special projects director and he now has a full-time assistant to help with all the FEMA projects.

The fiscal court does not have adequate internal controls over federal programs:

Federal Program: CFDA #21.019 COVID-19 - 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

Type of Finding: Material Weakness

Federal Program: CFDA #97.036, Disaster Grants - 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

Type of Finding: Material Weakness

This is a repeat finding and was included in the prior year audit report as Finding 2020-011. 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 and 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, 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. 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 the U.S. Constitution, Federal Statutes, regulations, and the terms and conditions of the Federal awards.
- (c) Evaluate and monitor the 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 designates as sensitive or the non-Federal entity considers sensitive consistent with applicable Federal, State, local, and tribal laws regarding privacy and responsibility over 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 a special projects director that is overseeing our FEMA contracts and recently he has hired an assistant. The county is handling a large number of disasters under FEMA and our practices have improved due to experience.

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

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