Auditor of Public Accounts
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FOR IMMEDIATE RELEASE

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Harmon Releases Audit of Floyd County Fiscal Court

FRANKFORT, Ky. – State Auditor Mike Harmon has released the audit of the financial statement of the Floyd County Fiscal Court for the fiscal year ended June 30, 2019. 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 Floyd 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 Floyd County Fiscal Court did not prepare a timely or accurate schedule of expenditures of federal awards: This is a repeat finding and was included in the prior year audit report as Finding 2018-002. The county did not prepare a schedule of expenditures of federal awards (SEFA) for Fiscal Year 2019 until requested by auditors. The provided schedule failed to include $364,824 in federal expenditures.

The fiscal court did not have adequate procedures in place to ensure the preparation of the SEFA in a timely manner or to ensure that all federal expenditures were accurately reported. The failure to properly prepare the SEFA could cause the county to potentially miss obtaining a required single audit.

2 CFR 200.510(b) requires the auditee to "also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements." At a minimum, the schedule should include the following, if applicable.

(1) List individual Federal programs by Federal agency.
(2) For Federal awards received as a sub-recipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
(3) Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number or other identifying number when the ALN information is not available.
(4) The total amount provided to sub-recipients 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 the significant accounting policies used in preparing the schedule.

We recommend the fiscal court ensure the SEFA is prepared timely and is reported accurately.

County Judge/Executive's Response: The first half of this year was previous administration, along with an inexperienced finance officer.

These recommendations have been taken into consideration and the new Finance Officer will ensure that the SEFA is up to date and accurately records the federal funds awarded to the FCFC.

The Floyd County Fiscal Court did not have effective internal controls, review procedures, and oversight for the budget process: The budget approved in the fiscal court minutes and by the Department for Local Government (DLG) did not agree to the amount reported on the fourth quarter report. The approved budget for receipts was a total of $18,000,000, the amount reported on the fourth quarter was $19,000,000, for a difference of $1,000,000. Also, line item budget transfers for expenditure accounts did not zero out as a $400,000 difference was noted. Line item budget transfers are allowable to move budget capacity where needed; however, these transfers must zero out in total among all funds or else it is indicative that the county utilized budget capacity that did not exist.

The fiscal court did not have effective internal controls, review procedures, and oversight for the budget process to ensure that correct budget amounts were reported on the fourth quarter report. Inadequate controls over the budget process resulted in the undetected errors noted above. The fiscal court relies on information presented in the quarterly financial reports and inaccurate information could lead to improper decision making.

KRS 68.210 states, "[t]he administration of the county uniform budget system shall be under the supervision of the state local finance officer who may inspect and shall supervise the administration of accounts and financial operations and shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials." The *County Budget Preparation and State Local Finance Officer Policy Manual* requires county officials to submit quarterly reports that show, among other things, the amounts from the original budget for each category of receipts and expenditures." The fourth quarter financial report must agree to the original budget and budget amendments submitted to and approved by DLG.

We recommend the fiscal court implement effective internal controls, oversight, and review procedures to ensure all budgeted amounts reflected on the fourth quarter financial report are complete and accurate and agree to the original budget.

County Judge/Executive's Response: The first half of this year was previous administration, along with an inexperienced finance officer.

The 4th Quarterly was inputted incorrectly, the 2018-2019 Budget was $18 million, and the Finance Officer and Treasurer will ensure that the Quarterly reports are entered correctly to DLG.

The Floyd County Fiscal Court did not properly disclose debt on the fourth quarter financial report: The Floyd County Fiscal Court did not report the correct amount of debt on the liabilities section of the fourth quarter financial report. Numerous errors were noted:

- Three debt amounts were accounted for twice (once in the long-term liabilities section and once in the short-term liabilities section).
- One debt amount had been paid off in prior periods but still remains on the report.
- Five items for which the amounts reported did not agree to the actual amounts outstanding for principal and interest.

The fiscal court does not have internal controls in place to ensure that debt reported on the liabilities section of the fourth quarter is correct. By not correctly reporting outstanding liabilities, the fiscal court cannot make effective management decisions as it relates to debt service outstanding each fiscal year. Additionally, the amount of debt reported on the county's fourth quarter financial report is overstated by $10,544,729.

Strong internal controls over outstanding debt and liabilities are necessary to ensure accurate financial reporting. Furthermore, KRS 68.210 gives the state local finance officer the authority to prescribe a uniform system of accounts. The uniform system of accounts is set forth in the Department for Local Government's (DLG) *County Budget Preparation and State Local Finance Officer Policy Manual*, which requires all county debt be reflected properly on the quarterly financial statement.

We recommend the Floyd County Fiscal Court properly and accurately disclose all debt on the quarterly financial reports.

County Judge/Executive's Response: The first half of this year was previous administration, along with an inexperienced finance officer.

We feel the debt was inputted twice on the report submitted to DLG, that is why its incorrectly reported.

These recommendations have been taken into consideration and the new Finance Officer will ensure that the 4th Quarterly matches the Treasurers records from this point forward.

The Floyd County Fiscal Court was not in compliance with bid laws and failed to implement adequate internal controls over the bid process: The Floyd County Fiscal Court advertised and opened bids but did not select a lowest and/or best bid. Multiple vendors were used for the purchase of asphalt that exceeded $20,000 in Fiscal year 2019 and several bids were received but the fiscal court minutes do not indicate that a bid was selected by the fiscal court. Also, several bids were received and used for various projects and items but they were not noted in the fiscal court minutes.

The fiscal court lacked internal controls to ensure that the bid process was followed properly. The fiscal court was not in compliance with procurement laws or their administrative code. In addition, the county may not have received the best value of services or products provided.

KRS 178.140(2) states "[t]he contract shall be awarded to the lowest and best bidder, who shall furnish satisfactory security in an amount equal to the amount of the contract in question, to be approved by the county judge/executive of the county."

Furthermore, the Floyd County Fiscal Court's Administration Code states, "Any expenditure or contract for materials, supplies (except perishable meat, fish, and vegetables), equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars ($20,000) shall be subject to competitive bidding" and "the County Judge shall open all bids publicly at the time and place stated in the advertisements and shall select the lowest and/or best bid by qualified bidder to be recommended to the fiscal court for the approval."

We recommend the fiscal court monitor disbursements to ensure procurement procedures are followed properly for all purchases and contracts in the future.

County Judge/Executive's Response: The first half of this year was previous administration, along with an inexperienced finance officer.

This is a confusing law, whereas the DLG states one thing and the auditor's office states another. DLG stating the opinion that each project stands on its own and whereas the auditor's opinion that no vendor can be paid over $20,000 throughout the fiscal year unless a bid is received.

We had a decision from the county attorney and the fiscal court now follows that policy which mirrors the state auditor's opinion.

Auditor's Reply: The issue isn't with the county failing to properly solicit bids for like type items or projects that exceed the bid threshold, the issue is that the fiscal court failed to award the lowest or best bid to any one particular vendor based on the bids submitted. Both the statute and the county's administrative code state that the bid must be awarded to the lowest or best bid received. The fiscal court cannot accept all bids to utilize various vendors throughout the period.

The Floyd County Jailer lacks internal controls over receipts and disbursements for the jail inmate and commissary accounts: This is a repeat finding and was included in the prior year audit report as Finding 2018-001. The jailer lacks internal controls over receipts and disbursements for the jail inmate and commissary accounts. There were no receipt or disbursement ledgers, bank records were not reconciled to a ledger cash balance, and three disbursements tested did not include itemized detailed invoices. Had the jailer designed and implemented proper internal controls, recording errors would have been detected sooner and corrected. In addition, we found no evidence of effective oversight by the jailer over the financial reporting process.

The jailer has not structured his office to provide sufficient oversight of the financial reporting process. Without internal controls in place, there is no way to know that the financial information is accurate. Internal controls should be implemented and duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. By not segregating these duties, there is an increased risk of misappropriation of assets either by undetected error or fraud occurring. By failing to maintain adequate internal controls, the jailer is increasing the risk of paying for goods and services not provided to the jail or for items that are not allowable to be paid.

Internal controls and proper segregation of duties protect employees and the jailer in the normal course of performing their daily responsibilities. Good internal controls dictate the same employee should not receive payments, prepare deposits and post to the receipts ledger; the same employee should not prepare monthly reports, sign checks and post to the disbursements ledger; and the same employee should not deposit funds, sign checks, post to ledgers and prepare bank reconciliations and monthly reports. Good internal controls are necessary in the reconciliation process to ensure that all activity that takes place in the bank accounts is appropriately documented and lowers the risk of misappropriation of receipts and disbursements. It is also important to ensure that detailed invoices are maintained to document purchases.

We recommend the jailer implement internal controls and segregate duties as much as possible. Employees receiving payments and preparing deposits should not be posting to the receipts ledger and preparing bank reconciliations. Employees preparing and signing checks should not be posting to the disbursements ledger and preparing bank reconciliations. A proper segregation of duties may not be possible with a limited number of employees, and in that case, the jailer could take on the responsibility of preparing or reviewing the daily deposits, receipts and disbursements ledgers, monthly reports, and bank reconciliations. These reviews must be documented in a way that indicates what was reviewed, by whom, and when, because signing off on inaccurate information does not provide internal control. Further, the jailer could require dual signatures on all checks, with one signature being the jailer's. Also, the jailer should ensure proper documentation is kept for invoices that includes detailed itemized invoices.

County Jailer's Response: This has been addressed, the Jailer has hired a new Commissary Clerk and will be corrected.

The Floyd County Jailer did not maintain daily checkout sheets: During the audit, we noted funds collected at the jail were not being documented on daily checkout sheets. The jailer did not seek advice from the Department for Local Government (DLG) regarding the proper accounting procedures for daily collections. We were not able to acquire daily deposit documentation for the testing dates that were chosen. By not maintaining checkout sheets on a daily basis, the jailer is increasing the opportunity for the misappropriation or theft of receipts to go unnoticed.

Daily deposits are required by the minimum accounting and reporting standards as prescribed by the state local finance officer pursuant to KRS 68.210.

We recommend receipts collected be deposited on a daily basis as prescribed by the state local finance officer pursuant to KRS 68.210.

County Jailer's Response: This has been addressed, as previously stated the Jailer has hired a new Commissary Clerk and has been doing daily deposits.

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

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